NAIC
National Association of Insurance Commissioners

Accounting Practices and Procedures Manual

As of March 2019

Volume II

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MAINTENANCE PROCESS

The Statutory Accounting Principles (E) Working Group maintains codified statutory accounting principles (SAP) by concluding on generally accepted accounting principles (GAAP) or addressing new statutory accounting issues. As revisions are adopted, updates to the *Accounting Practices and Procedures Manual* (Manual) are included in the electronic version of the Manual. Customers who utilize the hardcopy version of the Manual must pre-purchase the subsequent year Manual in order to access the updates through NAIC Account Manager at:

www.naic.org/account_manager.htm

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Ordering Information
Customers may purchase the *As of March 2019 Accounting Practices and Procedures* Manual, or pre-purchase the *As of March 2020 Accounting Practices and Procedures Manual* by contacting the NAIC Publications Department at 816.783.8300, *www.naic.org/store_home.htm* or email *prodserv@naic.org*. Beginning in 2018, customers wishing to receive a hardcopy version of the Manual must either reserve a copy or place an order by December 1 prior to the release of each subsequent year's Manual.

DEDICATION

The *Accounting Practices and Procedures Manual* is dedicated to Norris Clark, California Department of Insurance (retired), Chair of the Codification of Statutory Accounting Principles Working Group, and its successors, the Statutory Accounting Principles and Emerging Accounting Issues (E) Working Groups from September 1994 through July 2004, and to Joseph Fritsch, New York Department of Financial Services (retired), Chair of the Statutory Accounting Principles (E) Working Group from 2004 through December 2012.

Your dedication, leadership, intelligence and passion were the driving forces behind the creation and continued development of the comprehensive statutory accounting and financial reporting model presented in this publication. Your contributions throughout the years are appreciated and will not be forgotten.

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Appendix H – Superseded SSAPs and Nullified Interpretations

Completely superseded SSAPs and nullified interpretations (INTs) are retained in *Appendix H – Superseded SSAPs and Nullified Interpretations*, which is posted for public reference on the Statutory Accounting Principles (E) Working Group web page at *http://www.naic.org/cmte_e_app_sapwg.htm*.

SSAP No.	Title
8	Pensions
10	Income Taxes
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18	Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
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33	Securitization
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80	Life Contracts, Deposit-Type Contracts and Separate Accounts, Amendments to SSAP No. 51—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 56—Separate Accounts
81	Software Revenue Recognition
82	Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs
85	Claim Adjustment Expenses, Amendments to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses
87	Capitalization Policy, An Amendment to SSAP Nos. 4, 19, 29 and 73
88	Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 46
89	Accounting for Pensions, A Replacement of SSAP No. 8
91R	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
96	Settlement Requirements for Intercompany Transactions, An Amendment to SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties
98	Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43
99	Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment

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99-00	Compilation of Rejected EITFs
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99-03	Accounting for Investment in Subsidiary, Controlled or Affiliated (SCA) Entities with Subsequent Downstream Investment in an Insurance Company
99-04	Recognition of Prepayment Penalties Upon Adoption of Codification

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INT No.	Title
99-10	EITF 97-8: Accounting for Contingent Consideration Issued in a Purchase Business Combination
99-14	EITF 96-19: Debtor's Accounting for a Modification or Exchange of Debt Instruments
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99-18	EITF 97-13: Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation
99-21	EITF 98-7: Accounting for Exchanges of Similar Equity Method Investments
99-22	EITF 98-8: Accounting for Transfers of Investments That Are in Substance Real Estate
99-23	Disclosure of Premium Deficiency Reserves
99-24	Accounting for Restructuring Charges
99-25	Accounting for Capital Improvements
99-26	Offsetting Pension Assets and Liabilities
99-27	Nonadmitting Installment Receivables
99-28	Accounting for SCA Mutual Funds, Broker-Dealers and Similar Entities Under SSAP No. 46
99-29	Classification of Step-Up Preferred Stock
00-01	Investment in Foreign SCA Entity
00-02	Accounting for Leveraged Leases Involving Commercial Airplanes Under SSAP No. 22—Leases
00-04	Student Loan Insurance
00-05	Exemption to Merger Disclosure in SSAP No. 3
00-06	EITF 97-14: Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested
00-08	EITF 98-5: Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios
00-10	EITF 98-14: Debtor's Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements
00-11	EITF 98-15: Structured Notes Acquired for a Specified Investment Strategy
00-12	EITF 99-4: Accounting for Stock Received from the Demutualization of a Mutual Insurance Company
00-21	Disclose Requirement of SSAP No. 10 Paragraphs 17 & 18
00-22	Application of SSAP No. 10 to Admissibility of Deferred Tax Assets
00-23	Reinsurance of Deposit Type Contracts
00-27	EITF 98-9: Accounting for Contingent Rent
00-29	EITF 99-17: Accounting for Advertising Barter Transactions
00-30	Application of SSAP No. 51 Paragraph 6 to Waiver of Deduction on Flexible Premium Universal Life Insurance Policies
00-31	Application of SSAP No. 55 Paragraph 13 to Health Entities
00-32	EITF 00-8: Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction with Providing Goods or Services
01-01	Application of SSAP No. 6 Paragraph 9.a. to de minimus Receivable Balances of Group Accident and Health Policies
01-03	Assets Pledged as Collateral or Restricted for the Benefit of a Related Party
01-04	SSAP Nos. 18 and 33 and Issues Surrounding Securitizations
01-05	Classification of Accrued Interest on Policy Loans
01-07	EITF 98-2: Accounting by a Subsidiary or Joint Venture for an Investment in the Stock of Its Parent Company or Joint Venture Partner
01-10	EITF 00-1: Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures
01-11	EITF 00-10: Accounting for Shipping and Handling Fees and Costs

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INT No.	Title
01-12	EITF 00-14: Accounting for Certain Sales Incentives
01-14	EITF 00-16: Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation
01-16	Measurement Date for SSAP No. 8 Actuarial Valuations
01-17	Accounting for Nonqualified Retirement Plans, Nonvested Ancillary Benefits Within Retirement Plans, and Protected Benefits Such as Early Retirement Subsidies in Retirement Plans
01-19	Measurement of Deferred Tax Assets Associated with Nonadmitted Assets
01-20	Utilization of Tax Planning Strategies for the Admissibility of Deferred Tax Assets
01-21	SSAP Nos. 16R, 19, 68 and 79 – Reestablishment of Previously Expensed Software and Furniture, Fixtures and Equipment and Goodwill
01-22	Use of Interim Financial Statements in Computing Reporting Entity's Investment in Subsidiary Under the GAAP Equity Method
01-23	Prepaid Legal Insurance Premium Recognition
01-24	Application of SSAP No. 46 and 48 to Certain Noninsurance Subsidiary, Controlled or Affiliated Entities
01-26	SSAP No. 51 and Reserve Minimum or Required Amount
01-27	Accounting Change versus Correction of Error
01-28	Margin for Adverse Deviation in Claim Reserve
01-29	SSAP No. 59 and Application to Credit Life
01-32	EITF 01-10: Accounting for the Impact of the Terrorist Attacks of September 11, 2001
01-33	Extension of 9-Month Rule in SSAP No. 62R
02-01	Disclosure Requirements Under SSAP for Differences Between A-785 and Individual State Requirements as a Result of September 11
02-02	SSAP No. 6 and Billing of Premium Before Effective Date
02-03	Accounting for the Impact of the Terrorist Attacks of September 11th on Commercial Mortgage Loans
02-04	Recognition of CARVM and CRVM Expense Allowances by the Assuming Reinsurer in a Modified Coinsurance Agreement
02-05	Accounting for Zero Coupon Convertible Bonds
02-06	Indemnification in Modeled Trigger Transactions
02-07	Definition of Phrase "Other Than Temporary"
02-08	Application of A-791 to YRT Reinsurance of a Block of Business
02-09	A-785 and Syndicated Letters of Credit
02-10	Statutory Audit Report Notes and the Reporting Requirements Related to Disclosures Containing Multiple Year Information
02-11	Recognition of Amounts Related to Earned but Unbilled Premium
02-15	EITF 00-11 Lessors' Evaluation of Whether Leases of Certain Integral Equipment Meet the Ownership Transfer Requirements of FASB Statement 13
02-17	EITF 01-13: Income Statement Display of Business Interruption Insurance Recoveries
02-18	Accounting for the Intangible Asset as Described in SSAP No. 8 Paragraphs 9.d.v. and 9.f.
02-19	EITF 01-1: Accounting for a Convertible Instrument Granted or Issued to a Nonemployee for Goods or Services or a Combination of Goods or Services and Cash
02-20	Due Date for Installment Premium Under an Agency Relationship
02-21	Accounting for Prepaid Loss Adjustment Expenses and Claim Adjustment Expenses
03-01	Application of SSAP No. 35 to the Florida Hurricane Catastrophe Fund
03-03	Admissibility of Investments Recorded Based on the Audited GAAP Equity of the Investee when a Qualified Opinion is Provided
03-05	EITF 01-07: Creditor's Accounting for a Modification or Exchange of Debt Instruments
03-12	EITF 02-4: Determining Whether a Debtor's Modification or Exchange of Debt Instruments is within the Scope of FASB Statement No. 15
03-16	Contribution of Stock

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INT No.	Title
03-17	Classification of Liabilities from Extra Contractual Obligation Lawsuits
03-18	Accounting for a Change in the Additional Minimum Liability in SSAP No. 8—Pensions (SSAP No. 8)
04-01	Applicability of New GAAP Disclosures Prior to NAIC Consideration
04-02	Surplus Notes Issued by Entities Under Regulatory Action
04-03	Clarification for Calculating the Additional Minimum Pension Liability Under SSAP No. 89—Accounting for Pensions, A Replacement of SSAP No. 8, paragraph 16.f.
04-05	Clarification of SSAP No. 5R Guidance on when a Judgment is Deemed Rendered
04-07	EITF 02-15: Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are Within the Scope of FASB Statement No. 84
04-10	EITF 02-18: Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition
04-12	EITF 03-4: Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan
04-13	EITF 03-5: Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software
04-15	EITF 03-07: Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of Issue No. 90-19)
04-18	EITF 00-21: Revenue Arrangements with Multiple Deliverables
04-20	EITF 01-08: Determining Whether an Arrangement Contains a Lease
05-04	Extension of Ninety-day Rule for the Impact of Hurricane Katrina, Hurricane Rita and Hurricane Wilma
05-06	Earned But Uncollected Premium
06-14	Reporting of Litigation Costs Incurred for Lines of Business in which Legal Expenses Are the Only Insured Peril
07-03	EITF 06-3: How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)
08-02	EITF 06-8: Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums
08-03	EITF 06-9: Reporting a Change in (or the elimination of) a Previously Existing Difference between the fiscal Year-End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee
08-04	EITF 07-3: Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities
08-06	FSP EITF 00-19-2: Accounting for Registration Payment Arrangements
08-07	EITF 07-6: Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66 When the Agreement Includes a Buy-Sell Clause
08-08	Balance Sheet Presentation of Funding Agreements Issued to a Federal Home Loan Bank
08-10	Contractual Terms of Investments and Investor Intent
09-03	EITF 08-7: Accounting for Defensive Intangible Assets
09-04	Application of the Fair Value Definition
09-05	EITF 08-9: Accounting by Lessees for Maintenance Deposits
09-08	Accounting for Loans Received under the Federal TALF Program
13-01	Extension of Ninety-Day Rule for the Impact of Hurricane/Superstorm Sandy
13-03	Clarification of Surplus Deferral in SSAP No. 92 & SSAP No. 102
13-04	Accounting for the Risk-Sharing Provisions of the Affordable Care Act
16-01	ACA Section 9010 Assessment 2017 Moratorium
17-01	Extension of Ninety-Day Rule for the Impact of Hurricane Harvey, Hurricane Irma and Hurricane Maria
18-01	Updated Tax Estimates Under the Tax Cuts and Jobs Act
18-04	Extension of Ninety-Day Rule for the Impact of Hurricane Florence and Hurricane Michael

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How to Use This Manual

The contents of this manual are arranged as follows:

Volume I:

Table of Contents
Summary of Changes
Preamble
Statements of Statutory Accounting Principles
Index and Glossary to the Statements of Statutory Accounting Principles
Appendix A – Excerpts of NAIC Model Laws
Appendix B – Interpretations of Statutory Accounting Principles

Volume II:

Table of Contents
Summary of Changes
Appendix C – Actuarial Guidelines
Appendix D – GAAP Cross-Reference to SAP
Appendix E – Issue Papers Associated with SSAPs Adopted in 2018
Appendix F – Policy Statements
Appendix G – Implementation Guide for the Model Audit Rule

Historical Contents:

(Posted for public reference on the Statutory Accounting Principles (E) Working Group web page at *www.naic.org/cmte_e_app_sapwg.htm.)*

Appendix E – Issue Papers Associated with SSAPs Adopted Prior to 2018
Appendix H – Superseded SSAPs and Nullified Interpretations

The arrangement of material as indicated above is included in the Table of Contents found at the front of each volume of the Manual. A detailed table of contents also precedes each appendix covering the material within.

Summary of Changes:

The Summary of Changes outlines changes made to the prior edition of the Manual to create the current year's version. It is divided into three sections: 1) substantive revisions to statutory accounting principles; 2) nonsubstantive revisions to statutory accounting principles; and 3) revisions to the appendices included in the Manual. The Summary of Changes is a key resource for readers who are looking to identify changes from the prior edition.

Preamble:

Many state insurance regulators consider the Preamble one of the most important sections of the Manual as it provides the foundation for statutory accounting principles (SAP). Some of the significant topics covered in the Preamble include codification project background, statement of concepts, statutory hierarchy, materiality and disclosures.

Statements of Statutory Accounting Principles:

As indicated by the Statutory Hierarchy, the Statements of Statutory Accounting Principles (SSAPs) are the primary authoritative statutory accounting practices and procedures promulgated by the NAIC. These statements are the result of issue papers that have been exposed for public comment and finalized. Finalized issue papers are found in Appendix E and ARE NOT authoritative. While it is not intended that there be any significant differences between an underlying issue paper and the resultant SSAP, if differences exist, the SSAP prevails and shall be considered definitive. Readers may use the NAIC website to keep abreast of substantive and nonsubstantive changes to the SSAPs. Completely

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superseded SSAPs that are no longer authoritative are moved from the printed Manual into *Appendix H – Superseded SSAPs and Nullified Interpretations*, which is posted for pubic reference on the Statutory Accounting Principles (E) Working Group web page at *www.naic.org/cmte_e_app_sapwg.htm*.

The cover page of each SSAP contains a STATUS section that can affect the implementation of each SSAP. The STATUS section contains the following:

TYPE OF ISSUE – SSAPs designated as Common Area apply to all insurers. Although the nomenclature or terms provided in the prescribed annual statement forms may vary among different types of insurers, only one set of nomenclature or terms may have been used in the SSAP. For example, the Statement of Income found in the Property and Casualty Annual Statement shall be considered as synonymous with the Summary of Operations found in the Life and Health Annual Statement.

ISSUED – Date when the SSAP was adopted by the NAIC. SSAPs designated with Initial Draft were adopted by the NAIC Plenary in March 1998 as part of the Codification Project (SSAP Nos. 1-73). The date included for SSAP No. 74, and subsequent SSAPs, denotes when the Statutory Accounting Principles (E) Working Group adopted the SSAP.

EFFECTIVE DATE – Date representing when the SSAP is effective. Many times there are additional details relative to the transition provided within the SSAP.

AFFECTS/AFFECTED BY – A useful tool for tracking relationships between statements and interpretations is contained within these sections. The "affects" section is used when a SSAP substantively amends or supersedes previously issued SSAPs. Nullified INTs are also noted in this section. Readers are referenced to another SSAP in the "affected by" section if the SSAP has been substantively amended or superseded. Text within paragraphs substantively amended or superseded may also be "shaded" to notify readers that revised guidance is available.

INTERPRETED BY – This section includes a reference to the applicable interpretation (INT) of statutory accounting principles contained within Appendix B of the Manual which provides interpretative guidance as a result of issues raised by users of the Manual or related GAAP guidance. INTs are generally effective when adopted. Readers should note that the Manual only contains the INTs finalized through year end prior to publication, due to the fact that the Manual is published annually. Readers may use the NAIC website, as indicated on the inside front cover of the Manual, to keep abreast of recently issued INTs.

RELEVANT APPENDIX A GUIDANCE – This section identifies the relevant *Appendix A—Excerpts from NAIC Model Laws* guidance referenced within the SSAP.

Refer to the Relevant Literature and Effective Date and Transition sections of the SSAP for details of substantive and nonsubstantive changes.

Appendix A – Excerpts of NAIC Model Laws:

In most cases, the source document for information included in Appendix A is an NAIC Model Regulation or Law. These Appendices are referenced by specific SSAPs and should only be used in context of the Appendix and the SSAP that references it.

Appendix B – Interpretations of Statutory Accounting Principles:

The Statutory Accounting Principles (E) Working Group (SAPWG) is responsible for responding to SAP questions that generally relate to application, interpretation and clarification. Appendix B includes the final interpretations (INTs) of statutory accounting principles through year end prior to

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publication. Once an INT is finalized, the related SSAP will contain reference to the applicable INT. Nullified INTs are moved from the printed Manual into *Appendix H – Superseded SSAPs and Nullified Interpretations,* which is posted for public reference on the SAPWG web page at *www.naic.org/cmte_e_app_sapwg.htm*.

Appendix C – Actuarial Guidelines:

The NAIC Life Actuarial (A) Task Force and Health Actuarial (B) Task Force have been asked on many occasions to assist a particular state insurance department in interpreting a statute dealing with an actuarial topic relative to an unusual policy form or situation not contemplated at the time of original drafting of a particular statute. The Life Actuarial (A) Task Force and Health Actuarial (B) Task Force, in developing interpretations or guidelines, must often consider the intent of the statute, the reasons for initially adopting the statute and the current situation. The Life Actuarial (A) Task Force and Health Actuarial (B) Task Force feel that for those situations which are sufficiently common to all states, the publishing of actuarial guidelines on these topics would be beneficial to the regulatory officials in each state and would promote uniformity in regulation which is beneficial to everyone. To this end, the Life Actuarial (A) Task Force and Health Actuarial (B) Task Force have developed certain actuarial guidelines and will continue to do so as the need arises. The guidelines are not intended to be viewed as statutory revisions but merely a guide to be used in applying a statute to a specific circumstance.

Appendix D – GAAP Cross-Reference to SAP:

As expressed in the Statement of Concepts, SAP utilizes the framework established by Generally Accepted Accounting Principles (GAAP). Appendix D includes GAAP pronouncements that have been considered in the development of SAP. This listing includes GAAP pronouncements issued through year end prior to publication. This Appendix is a valuable and efficient tool for readers who are interested in the status of a particular GAAP pronouncement in the SAP model.

Appendix E – Issue Papers:

Appendix E includes issue papers associated with SSAPs adopted through year end prior to publication of the Manual. Issue papers are used as the first step in developing new SSAPs and contain a recommended conclusion, discussion and relevant literature section. Issue papers **DO NOT** constitute an authoritative level of statutory accounting, as supported by the statutory hierarchy, and should only be used as reference material. Nevertheless, issue papers are important because they reference the history and discussion of a related SSAP. The "Relevant Statutory Accounting and GAAP Guidance" section of the issue paper contains excerpts of accounting guidance considered, but not necessarily adopted, by the Statutory Accounting Principles (E) Working Group (SAPWG) when forming the conclusions reached in the resultant SSAP. Historical issue papers associated with SSAPs adopted prior to the current year are posted for public reference on the SAPWG web page at *http://www.naic.org/cmte_e_app_sapwg.htm.*

Appendix F – Policy Statements:

Appendix F includes NAIC policy statements applicable to SAP. These statements provide the basis by which SAP is maintained, documentation of the agenda process and other important issues that affect this manual.

Appendix G – Implementation Guide for Model Audit Rule:

Appendix G contains the NAIC Implementation Guide for the Model Audit Law. The Implementation Guide has been included for informational purposes only and should not be viewed as a requirement of complying with the *Accounting Practices and Procedures Manual*.

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Appendix H – Superseded SSAPs and Nullified Interpretations:

Appendix H contains superseded SSAPs and nullified interpretations and is posted for public reference on the Statutory Accounting Principles (E) Working Group web page at *http://www.naic.org/cmte_e_app_sapwg.htm*.

How to Use the Manual …

... to account for a certain item under NAIC SAP

As the SSAPs represent the highest level of NAIC statutory authority, readers should begin their search there. The Index to SSAPs is a useful tool to identify which SSAP(s) address the issue. Once the pertinent SSAP has been identified, it can be used to locate other documents that may also address the issue. On the SSAP cover page, readers will be referred to other SSAPs if there have been substantive changes made to it or INTs if there have been interpretations of the SSAP. Within the body of the SSAP, readers may be referred to Appendix A or C for further guidance. There is a reference located at the end of each SSAP to issue paper(s) used in the development of the SSAP. The DISCUSSION section of the issue paper provides documentation supporting the conclusions reached in the SSAP. As supported by the statutory hierarchy, readers should only utilize the issue papers as support to the SSAP as they ARE NOT authoritative. The Statutory Hierarchy contains a detailed listing of levels of authoritative literature.

... to compare SAP to GAAP for a particular issue

Appendix D is an excellent reference for readers who are interested in determining how SAP addresses an issue that has been adopted by GAAP. Appendix D provides a reference to the SSAP or INT that addresses a particular GAAP pronouncement. As indicated in the Preamble, readers should not utilize GAAP until and unless adopted by the NAIC. Within the body of the applicable SSAP or INT, readers will find documentation as to the reason for adoption, rejection, or adoption with modification of a particular GAAP pronouncement.

... to identify the relationship between the Manual and State law

Once a reader has identified the accounting treatment for a particular transaction or issue within the Manual, one must consider the effect of state law. That is, the Manual is not intended to preempt states' legislative and regulatory authority. It is intended to establish a comprehensive basis of accounting recognized and adhered to if not in conflict with state statutes and/or regulations, or when the state statutes and/or regulations are silent. For instance, if a state prohibits the admission of goodwill, insurers domiciled in that state are required to nonadmit all goodwill instead of following the NAIC guidance contained within *SSAP No. 68—Business Combinations and Goodwill*. Insurers should refer to their state laws and regulations regarding deviations from this manual.

... to obtain updates to the latest published Manual

Each year there will be modifications to the accounting pronouncements included in the Manual. As such, guidance is subject to the maintenance process. To address this, the NAIC provides updates on the latest information impacting statutory accounting. Customer's who purchase the Manual may receive access to these updates. To learn more about how to obtain updates to the latest published Manual, refer to the Maintenance Process page, which precedes the Table of Contents.

... to learn how changes are made to the Manual and how to stay abreast of such changes

Appendix F contains several NAIC policy statements that document the process by which the Manual will be modified. It also outlines the process by which the Statutory Accounting Principles (E) Working Group (SAPWG) will conduct its business. Users of the Manual can track the development of SAP by attending the national meetings of the SAPWG or through use of the NAIC website at *www.naic.org*.

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... to contact the NAIC regarding questions about the Manual

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TECHNICAL SUPPORT	
Issue	**Contact**
Purposes and Procedures Manual of the NAIC Investment Analysis Office	Securities Valuation Office One New York Plaza, Suite 4210 New York, NY 10004 212-398-9000 securitiessupport@naic.org
NAIC Products—AVS, Data and Publications	816-783-8300 prodserv@naic.org
Assistance with Annual Statement Reporting and Statutory Accounting	Statutory Accounting and Reporting Help Line 816-783-8400
Subscribe to Statutory Accounting Electronic Updates	http://naicforum.naic.org/statacctupdates.htm
NAIC General Assistance	816-783-8500 Monday-Friday, 8:30 a.m. – 5:00 p.m. Central help@naic.org www.naic.org

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Summary of Changes to the *As of March 2018 Accounting Practices and Procedures Manual* included in the *As of March 2019* Version

The following represents a summary of the changes that were made to the *As of March 2018 Accounting Practices and Procedures Manual* (Manual) to create the *As of March 2019* version.

Section 1 summarizes substantive revisions to statutory accounting principles. Substantive revisions introduce original or modified accounting principles and can be reflected in an existing or new SSAP. When substantive revisions are made to an existing SSAP, the effective date is identified in the Status section, and the revised text within is depicted by underlines (new language) and strikethroughs (removed language). This tracking will not be shown in subsequent manuals. New and substantively revised SSAPs are commonly accompanied by a corresponding issue paper that reflects the revisions for historical purposes. If language in an existing SSAP is superseded, that language is shaded and the new or substantively revised SSAP is referenced. Completely superseded SSAPs and nullified interpretations are included in Appendix H.

Section 2 summarizes the nonsubstantive revisions to statutory accounting principles. Nonsubstantive revisions are characterized as language clarifications which do not modify the original intent of a SSAP, or changes to reference material. Nonsubstantive revisions are depicted by underlines (new language) and strikethroughs (removed language) and will not be tracked in subsequent manuals. Nonsubstantive revisions are effective when adopted unless a specific effective date is noted.

Section 3 summarizes revisions to the Manual appendices.

1. Substantive Revisions – Statutory Accounting Principles		
Section	**Reference**	**Description**
SSAP No. 21R	2018-17	Revisions detail that periodic-certain structured settlements acquired under all state and federal laws are admitted assets. Life-contingent structured settlements and periodic-certain structured settlements not acquired pursuant to state and federal laws are nonadmitted assets.
SSAP No. 30R	2017-31	Revisions primarily update the common stock definition to include U.S. Securities and Exchange Commission (SEC) registered closed-end funds and unit-investment trusts within scope.
SSAP No. 62R	2017-28	Revisions clarify the determination of reinsurance credit and incorporate language from *EITF 93-6, Accounting for Multi-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises* and *EITF D-035, FASB Staff Views on Issue No. 93-6*.
SSAP No. 108	2016-03	Revisions create a new *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* to prescribe guidance for derivatives that hedge interest rate risk of variable annuity guarantees.
2. Nonsubstantive Revisions – Statutory Accounting Principles		
Section	**Reference**	**Description**
SSAP No. 1	2018-05	Revisions update the reference to 5* to reflect the new symbol of 5GI.
	2018-16	Revisions identify that the updates to *A-001 Investments of Reporting Entities* are effective January 1, 2019.
SSAP No. 5R	2018-13EP	Editorial revisions remove disclosure illustrations duplicated in the annual statement instructions.

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SSAP No. 15	2018-20	Revisions reference existing guidance for when there has been a forgiveness of a debt owed.
SSAP No. 21	2018-08	Revisions restrict the guidance when a reporting entity is the owner and beneficiary of a life insurance contract to require the policy to be in compliance with Internal Revenue Code (IRC) §7702 and to require the product to be acquired with the primary consideration of the costs related to employee benefit obligations or the loss of a key person. Disclosure is required of the cash surrender value within an investment vehicle by underlying investment category.
SSAP No. 22	2018-25	Revisions reject *ASU 2018-01, Leases – Land Easement Practical Expedient for Transition to Topic 842* for statutory accounting.
SSAP No. 25	2018-20	Revisions reference existing guidance when there has been a forgiveness of a debt owed.
SSAP No. 26R	2018-12	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
SSAP No. 30R	2018-12	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
SSAP No. 32	2018-05	Revisions remove reference to the reporting codes of "RP" and "P" as redeemable and perpetual preferred stock will be reported on separate lines on the investment schedule. Duplicative language was also removed.
	2018-12	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
SSAP No. 41R	2017-21	Revisions reference guidance that requires adjustment to prevent double-counting of surplus notes between insurance reporting entities and subsidiary, controlled and affiliated entities.
	2018-13EP	Editorial revisions eliminate an outdated footnote identifying that the NAIC SVO maintains a listing of CRP ratings of surplus notes.
SSAP No. 43R	2018-12	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
	2018-19	Revisions eliminate the modified filing exempt (MFE) process for determining NAIC designations.
SSAP No. 47	2018-19 2017-35	Revisions reject the following ASUs: • *ASU 2014-09, Revenue from Contracts with Customers* • *ASU 2015-14, Revenue from Contracts with Customers, Deferral of the Effective Date* • *ASU 2016-08, Revenue from Contracts with Customers, Principal versus Agent Considerations* • *ASU 2016-10, Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing* • *ASU 2016-12, Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients*
SSAP No. 48	2018-27	Revisions require disclosures when a reporting entity's share of losses exceeds its investment.
SSAP No. 49	2017-35	Revisions clarify the reporting of policy loans and require policy loans that originate from separate account policies to be "funded" to the general account in order for the policy loan to be admitted.
SSAP No. 51R	2018-28	Revisions add liquidity disclosures for year-end 2019.
SSAP No. 52	2018-13EP	Editorial revisions remove disclosure illustrations duplicated in the annual statement instructions.
	2018-28	Revisions add liquidity disclosures for year-end 2019.

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SSAP No. 56	2017-35	Revisions clarify that policy loans related to the separate account shall follow the guidance in *SSAP No. 49—Policy Loans*.
	2018-08	Revisions incorporate disclosures of non-SEC registered products.
SSAP No. 61R	2018-28	Revisions add liquidity disclosures for year-end 2019.
SSAP No. 62R	2018-13EP	Editorial revisions remove reference to "new" or "revised" accounting rules as the guidance has been in effect for several years.
SSAP No. 68	2017-18	Revisions capture additional goodwill disclosures.
	2018-23	Revisions clarify that statutory mergers include scenarios in which the stock of an owned entity is cancelled, with the parent entity reporting the assumed assets and liabilities.
SSAP No. 72	2018-21	Revisions incorporate accounting guidance for when a reporting entity provides a distribution that is a return of capital.
SSAP No. 86	2016-48	Revisions require disclosures for derivatives with financing premiums.
	2018-12	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
	2018-24EP	Editorial revisions remove an outdated effective date.
	2018-30	Revisions reflect hedge documentation and assessment efficiencies from *ASU 2017-12, Derivatives and Hedging – Targeted Improvements to Accounting for Hedging Activities.*
SSAP No. 92	2017-30	Revisions remove the Level 3 fair value reconciliation disclosure.
SSAP No. 97	2017-21	Revisions clarify the existing concept that restricts the double-counting of surplus notes to explicitly state that surplus notes issued by the parent and held by the subsidiary, controlled or affiliated (SCA) entity shall be eliminated in the SCA's value reported by the parent insurance company.
	2018-09	Revisions require disclosure when a reporting entity's share of losses exceeds its investment in a SCA.
	2018-24EP	Editorial revisions update reference to guidance relocated to other SSAPs.
SSAP No. 100R	2018-1	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
SSAP No. 101	2018-01	Revisions in response to the Tax Cuts and Jobs Act.
SSAP No. 102	2017-30	Revisions remove the Level 3 fair value reconciliation disclosure.
SSAP No. 103R	2017-31	Revisions exclude cash equivalents, derivatives and short-term investments with credit assessments equivalent to an NAIC 1 or NAIC 2 designation from the wash sale disclosure and clarify that the wash sale disclosure is required in the period in which the security is sold.

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3. Revisions to the Appendices		
Section	**Reference**	**Description**
Appendix A	2018-16	Revisions to *Appendix A-001— Investments of Reporting Entities* align the summary investment schedule more closely to the underlying investment schedules, allowing for cross-checks and less manual allocations.
	2018-24EP	Editorial revisions to *Appendix A-010—Minimum Reserve Standards For Individual And Group Health Insurance Contract* update paragraph references and an incorrect date.
	2018-29	Revisions remove the phrase "good and sufficient reserve" from *Appendix A-820—Minimum Life and Annuity Reserve Standards* as it is not consistent with the related NAIC *Standard Valuation Law Model 820.*
Appendix B	2017-36	Revisions update *INT 02-22: Accounting for U.S. Terrorism Risk Insurance Program* to clarify that the INT will remain in effect as long as the related Act is authorized by Congress.
	2018-10	New *INT 18-02: ACA Section 9010 Assessment Moratorium* (replacing INT 16-01) provides guidance for the 2019 moratorium and future moratoriums for the federal Affordable Care Act (ACA) Section 9010 fee.
	2018-14	Revisions to *INT 05-05: Accounting for Revenues Under the Medicare Part D Coverage* add a description of the Coverage Gap Discount Program, amend existing guidance on program payments, and update definitions.
	2018-15	New *INT 18-03: Additional Elements Under the Tax Cuts and Jobs Act* provides guidance for the repatriation transition tax (RTT), Alternative Minimum Tax (AMT) Credit, and the Global Intangible Low-Taxed Income (GILTI) Tax provisions under the Act.
Appendix C	AG 42	Revisions to *Actuarial Guideline XLII—The Application of the Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities* provide guidance for purposes of the certification requirements related to the selection of the appropriate preferred class structure mortality table.
	AG 48 2016 Valuations	Deleted the version of *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued Under Sections 6 and 7 of the AIC Valuation of Life Insurance Policies Model Regulation (Model #830)* that applied to 2016 valuations.
Appendix D	Rejected as Not Applicable to Statutory Accounting:	
	2017-06	*ASU 2017-06, Master Trust Reporting*
	2018-15	*ASU 2017-15, U.S. Steamship Entities, Elimination of Topic 995*
Appendix E	2017-32	*IP No. 158— Unaffiliated Common Stock*
	2016-03	*IP No. 159— Special Accounting Treatment for Limited Derivatives*
Appendix F		No revisions impacting this appendix were adopted in 2018.
Appendix G		No revisions impacting this appendix were adopted in 2018.

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Appendix H	2017-36	Nullifies *INT 09-08: Accounting for Loans Received Under the Federal TALF Program* as there are no more loans outstanding under the program.
	2018-10	Nullifies *INT 16-01: ACA Section 9010 Assessment 2017 Moratorium*. This INT was replaced with INT 18-02.
	2018-02	Nullifies *INT 18-01: Updated Tax Estimates under the Tax Cuts and Jobs Act.* This INT provided a limited-scope, limited-time interpretation in response to the Act and was nullified December 31, 2018.
	2018-31	Nullifies *INT 18-04: Extension of Ninety-Day Rule for the Impact of Hurricane Florence and Hurricane Michael.* This INT provided a temporary extension to the ninety-day rule under *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers* for policies impacted by the named storms.

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Appendix C
Actuarial Guidelines

Introduction

The NAIC Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force, formerly known as the Life and Health Actuarial Task Force, have been asked on many occasions to assist a particular state insurance department in interpreting a statute dealing with an actuarial topic relative to an unusual policy form or situation not contemplated at the time of original drafting of a particular statute. The Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force, in developing an interpretation or guideline, must often consider the intent of the statute, the reasons for initially adopting the statute and the current situation. The Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force feel that for those situations which are sufficiently common to all states, that the publishing of actuarial guidelines on these topics would be beneficial to the regulatory officials in each state and would promote uniformity in regulation which is beneficial to everyone. To this end, the Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force have developed certain actuarial guidelines and will continue to do so as the need arises. The guidelines are not intended to be viewed as statutory revisions but merely a guide to be used in applying a statute to a specific circumstance.

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Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
I (AG 1)	Interpretation of The Standard Valuation Law Respect to the Valuation of Policies Whose Valuation Net Premiums Exceed the Actual Gross Premium Collected	December 1978	Standard Valuation Law	No
II (AG 2)	Reserve Requirements With Respect to Interest Rate Guidelines on Active Life Funds Held Relative to Group Annuity Contracts	December 1978	Standard Valuation Law	No
III (AG 3)	Interpretation of Minimum Cash Surrender Benefit Under Standard Nonforfeiture Law For Individual Deferred Annuities	December 1978	Standard Nonforfeiture Law for Individual Deferred Annuities	No
IV (AG 4)	Actuarial Interpretation Regarding Minimum Reserves For Certain Forms of Term Life Insurance	December 1984	Standard Valuation Law	Yes
V (AG 5)	Interpretation Regarding Acceptable Approximations For Continuous Functions	December 1979	Standard Valuation and Nonforfeiture Laws	No
VI (AG 6)	Interpretation Regarding Use of Single Life or Joint Life Mortality Tables 20 June 1983	December 1979	Standard Valuation and Standard Nonforfeiture Law for Life Insurance	Yes
VII (AG 7)	Interpretation Regarding Calculation of Equivalent Level Amounts	December 1979	Standard Valuation and Nonforfeiture Laws	No
VIII (AG 8)	The Valuation of Individual Single Premium Deferred Annuities	December 1980	Standard Valuation Law	No
IX (AG 9)	Form Classification of Individual Single Premium Immediate Annuities For Application of the Valuation and Nonforfeiture Laws	June 1981	Standard Valuation Law and Standard Nonforfeiture Law for Individual Deferred Annuities	No
IX-A (AG 9-A)	Use of Substandard Annuity Mortality Tables In Valuing Impaired Lives Under Structured Settlements	June 1989	Standard Valuation Law	No

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Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
IX-B (AG 9-B)	Clarification of Methods Under Standard Valuation Law For Individual Single Premium Immediate Annuities, Any Deferred Payments Associated Therewith, Some Deferred Annuities, and Structured Settlements Contracts	December 1988	Standard Valuation Law	No
IX-C (AG 9-C)	Use of Substandard Annuity Mortality Tables in Valuing Impaired Lives Under Individual Single Premium Immediate Annuities	March 2001	Standard Valuation Law	No
X (AG 10)	Guideline For Interpretation of NAIC Standard Nonforfeiture Law For Individual Deferred Annuities	December 1981	Standard Nonforfeiture Law for Individual Deferred Annuities	No
XI (AG 11)	Effect of an Early Election By an Insurance Company of an Operative Date Under Section 5-C of the Standard Nonforfeiture Law For Life Insurance	December 1982	Standard Nonforfeiture Law for Life Insurance	No
XII (AG 12)	Interpretation Regarding Valuation and Nonforfeiture Interest Rates	June 1983 Withdrawn March 1993	Standard Valuation Law and Standard Nonforfeiture Law for Life Insurance	No
XIII (AG 13)	Guideline Concerning the Commissioners' Annuity Reserve Valuation Method	March 1985	Standard Valuation Law	No
XIV (AG 14)	Surveillance Procedure For Review of the Actuarial Opinion For Life and Health Insurers	December 1985	Instructions for Financial Examiners	No
XV (AG 15)	Illustrations Guideline For Variable Life Insurance Model Regulation	June 1986	Variable Life Insurance Model Regulation	No
XVI (AG 16)	Calculation of CRVM Reserves On Select Mortality and/or Split Interest	December 1986	Standard Valuation Law	No
XVII (AG 17)	Calculation of CRVM Reserves When Death Benefits Are Not Level	December 1986	Standard Nonforfeiture Law for Life Insurance	No

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Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
XVIII (AG 18)	Calculation of CRVM Reserves On Semi-Continuous, Fully Continuous or Discounted Continuous Basis	December 1986	Standard Valuation Law	No
XIX (AG 19)	1980 CSO Mortality Table With Ten-Year Select Mortality Factors	December 1986	NAIC Procedure for Permitting Same Minimum Nonforfeiture Standards for Men and Women Insured Under 1980 CSO and 1980 CET Mortality Tables Model Regulation	No
XX (AG 20)	Joint Life Functions For 1980 CSO Mortality Table	December 1986	Standard Valuation Law	No
XXI (AG 21)	Calculation of CRVM Reserves When (B) Is Greater Than (A) and Some Rules For Determination of (A)	June 1987	Standard Valuation Law	No
XXII (AG 22)	Interpretation Regarding Nonforfeiture Values For Policies With Indeterminate Premiums	June 1987	Standard Nonforfeiture Law for Life Insurance	No
XXIII (AG 23)	Guideline Concerning Variable Life Insurance Separate Account Investments	June 1987	Variable Life Insurance Model Regulation	No
XXIV (AG 24)	Guidelines For Variable Life Nonforfeiture Values	June 1987	Standard Nonforfeiture Law For Life Insurance and Variable Life Insurance Model Regulation	No
XXV (AG 25)	Calculation of Minimum Reserves and Minimum Nonforfeiture Values For Policies With Guaranteed Increasing Death Benefits Based on an Index	October 2010	Standard Valuation Law	Yes
XXVI (AG 26)	List of Operative Dates Under Standard Valuation Law and Standard Nonforfeiture Law—June 3, 1989	December 1989	Standard Valuation Law Standard Nonforfeiture Law	No
XXVII (AG 27)	Accelerated Benefits	June 1991	Standard Valuation Law Standard Nonforfeiture Law	No

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Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
XXVIII (AG 28)	Statutory Claim Reserves For Group Long-Term Disability Contracts With A Survivor Income Benefit Provision	December 1991	Standard Valuation Law Minimum Reserve Standards for Individual and Group Health Insurance Contracts	No
XXIX (AG 29)	Guideline Concerning Reserves of Companies in Rehabilitation	December 1992	Standard Valuation Law	No
XXX (AG 30)	Guideline for the Application of Plan Type to Guaranteed Interest Contracts (GICs) With Benefit Responsive Payment Provisions Used to Fund Employee Benefit Plans	December 1992	Standard Valuation Law	No
XXXI (AG 31)	Valuation Issues vs. Policy Form Approval	December 1992	Standard Valuation Law	No
XXXII (AG 32)	Reserve for Immediate Payment of Claims	December 1992	Standard Valuation Law	No
XXXIII (AG 33)	Determining CARVM Reserves For Annuity Contracts With Elective Benefits	November 2015	Standard Valuation Law	Yes
XXXIV (AG 34)	Variable Annuity Minimum Guaranteed Death Benefit Reserves	December 2003 Repealed December 2009	Standard Valuation Law	Yes
XXXV (AG 35)	The Application of the Commissioners Annuity Reserve Method to Equity Indexed Annuities	December 1998	Standard Valuation Law	No
XXXVI (AG 36)	The Application of the Commissioners Reserve Valuation Method to Equity Indexed Life Insurance Policies	June 2000	Standard Valuation Law	No
XXXVII (AG 37)	Variable Life Insurance Reserves For Guaranteed Minimum Death Benefits	October 2001	Standard Valuation Law	No
XXXVIII (AG 38)	The Application of the Valuation of Life Insurance Policies Model Regulation	August 2017	The Valuation of Life Insurance Policies Model Regulation	Yes

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Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
XXXIX (AG 39)	Reserves For Variable Annuities With Guaranteed Living Benefits	September 2008 Sunset December 2009	Standard Valuation Law	Yes
XL (AG 40)	Guideline For Valuation Rate of Interest For Funding Agreements and Gurauranteed Interest Contracts (GICs) With Bail-Out Provisions	September 2003	Standard Valuation Law	No
XLI (AG 41)	Projection of Guaranteed Nonforfeiture Benefits Under CARVM	June 2006	Standard Valuation Law and Standard Nonforfeiture Law for Individual Deferred Annuities	No
XLII (AG 42)	The Application of the Model Regulation Permitting the Recognition of Preferred Mortality Tables For Use In Determining Minimum Reserve Liabilities	December 2008	Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities	Yes
XLIII (AG 43)	CARVM For Variable Annuities	March 2010	Standard Valuation Law	Yes
XLIV (AG 44)	Group Term Life Waiver of Premium Disabled Life Reserves	December 2008	Standard Valuation Law	No
XLV (AG 45)	The Application of the Standard Nonforfeiture Law For Life Insurance to Certain Policies Having Intermediate Cash Benefits	December 2008	Standard Nonforfeiture Law	No
XLVI (AG 46)	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	September 2009	The Valuation of Life Insurance Policies Model Regulation	No
XLVII (AG 47)	The Application of Company Experience in the Calculation of Claim Reserves Under the 2012 Group Long-Term Disability Valuation Table	December 2016	The Health Insurance Reserves Model Regulation	Yes

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Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
XLVIII (AG 48)	Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (Model #830)	August 2017	The Valuation of Life Insurance Policies Model Regulation	Yes
XLIX (AG 49)	The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest	December 2016	The Life Insurance Illustrations Model Regulation	Yes
L (AG 50)	2013 Individual Disability Income Valuation Table Actuarial Guideline	August 2016	The Health Insurance Reserves Model Regulation (Model #10)	No
LI (AG 51)	The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves	August 20[illegible]	Asset Adequacy Analysis Required by the NAIC Valuation Manual (VM-30)	No

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Actuarial Guideline I

INTERPRETATION OF THE STANDARD VALUATION LAW RESPECT TO THE VALUATION OF POLICIES WHOSE VALUATION NET PREMIUMS EXCEED THE ACTUAL GROSS PREMIUM COLLECTED

1. The purpose of this guideline (items 2 and 3 below) is to clarify the intent of the Standard Valuation Law.

2. The method of valuation promulgated by the model legislation adopted by the NAIC in December 1976 for the valuation of life insurance policies whose valuation net premiums exceeds the actual gross premiums collected is a change in method of reserve calculation and not a change in reserve standards.

3. For policies so valued the maximum permissible valuation interest rate and the applicable mortality basis specified is that in effect at the date of issue of such policies.

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Actuarial Guideline II

RESERVE REQUIREMENTS WITH RESPECT TO INTEREST RATE GUIDELINES ON ACTIVE LIFE FUNDS HELD RELATIVE TO GROUP ANNUITY CONTRACTS

As part of the determination of the aggregate minimum group annuity reserves, a computation must be made of minimum reserves for deposit administration group annuity funds with interest rate guarantees including all such funds pertaining to possible purchase of group annuities whether such funds are held in a separate account or in a general account, whether shown as premiums, advance premiums, auxiliary funds, etc. and whether the liability is shown in Exhibit 8 or elsewhere. In making such computations, the procedure and minimum standards described below shall be applicable for the December 31 calendar year "y" valuation giving recognition to the dates deposits were made. Where appropriate and with the approval of the commissioner, recognition may be given to the extent and time of application of active life funds to purchase annuities, expense assessments against the funds, and excess of purchase price over minimum reserves. In no event shall the reserve be less than the transfer value, if any, of the fund. Approximate methods and averages may be employed with the approval of the commissioner.

To the extent that the application of these valuation procedures and standards would require a company to establish aggregate minimum reserves for group annuities and related funds in excess of reserves which it would not otherwise hold if these valuation procedures and standards did not apply, such company shall set up additional reserve liability shown in its general account or in a separate account, whether shown in Exhibit 8 or elsewhere.

The valuation procedures and standards specified in this guideline shall not be applicable to the extent that the valuation procedures and standards relating to reserves for deposit administration group annuity funds with interest rate guarantees (i.e., group annuity and guaranteed interest contracts) in the amendments to the Standard Valuation Law adopted by the National Association of Insurance Commissioners in December 1980, or any later NAIC amendments, have become applicable in a jurisdiction.

For funds receive:

(1) Prior to calendar year 1976, follow the procedure used at that time.

(2) In calendar year 1976 or later, follow the minimum standards described below:

(a) Contracts having no guaranteed interest rates in excess of 6% on future contributions to be received more than one year subsequent to the valuation date.

The minimum reserve shall be equal to the sum of the minimum reserves for funds attributable to contributions received in each calendar year.

Where V_y = Minimum reserve for funds attributable to contributes received in calendar year y.

$V_y = [C_y \times (1 + i_{gy})^n]/(1 + i_{py})^n$

C_y = Portion of guaranteed fund attributable to contributions received in calendar year y

i_{gy} = Interest rate guaranteed under the contract with respect to funds attributable to contributions received in calendar year y.

i_{py} = Lowest of:

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(1) The net new money rate credited by the company on group annuity funds attributable to contributions received in calendar year y less .005; or

(2) i_{gy}; or

(3) i_{my}; where

(i) i_{my} = for calendar years y + 1 through y + 10, the values shown in the table of values of i_{my} displayed each year by the Central Office of the National Association of Insurance Commissioners;

(ii) i_{my} = for calendar years y + 11 and later, .060.

n = Number of guarantee years, and fractions thereof, remaining as of the December 31 valuation.

(b) Contracts having guaranteed interest rates in excess of 0% on future contributions to be received more than one year subsequent to the valuation date.

The same procedures as set forth under (a) above shall be used except that the deduction under (1) of i_{py} shall be .01 instead of .005 and i_{my} for calendar years y + 1 through y + 10 shall be reduced by .005.

Table of Values of i_{my}

(Effective for the December 31, 1977 Valuation)

Calendar Year y in Which Contributions Were Received	Value of i_{my} for Calendar Years y + 1 Through y + 10
1976	.089
1977	.087
1978	.081
1979	.084
1980	.100
1981	.124
1982	.145

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Actuarial Guideline III

INTERPRETATION OF MINIMUM CASH SURRENDER BENEFIT UNDER STANDARD NONFORFEITURE LAW FOR INDIVIDUAL DEFERRED ANNUITIES

Section 6 of the model bill as written does not require that cash surrender benefits to be paid; but where they are paid, it requires that such cash surrender benefits grade into maturity value using an interest rate not more than one percent higher than the rate specified in the contract for accumulating net considerations. While this method will be suited for contracts having a sales load at issue, it may create a problem for contracts having surrender charges for cash surrender.

For contracts providing cash surrender values, the cash surrender value at maturity shall be at least equal to the minimum nonforfeiture amount at maturity as defined in Section 4. For purposes of calculating cash surrender values prior to maturity, the term "maturity value" in the Standard Nonforfeiture Law for Individual Deferred Annuities shall mean the cash surrender value at maturity.

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Actuarial Guideline IV

ACTUARIAL INTERPRETATION REGARDING MINIMUM RESERVES FOR CERTAIN FORMS OF TERM LIFE INSURANCE

Scope

This interpretation recommended by the NAIC Technical Task Force to Review Valuation and Nonforfeiture Value Regulation deals only with term life insurance without cash values which the owner has the unilateral right to maintain in force until its stated expiry date, subject only to the payment of required premiums which vary (generally increasing on a per $1000 basis) during the term of the policy and under which premium rates are guaranteed to the stated final expiry. This interpretation applies only to such term plans valued on the 1958 CSO Mortality Table for the current term period.

Ten-year renewable term, five-year renewable term and one-year renewable term to a stated age with generally increasing premiums are titles commonly given to such policies, but this interpretation concerns itself with the actual coverage provided and is not controlled by the name given the coverage.

Background Information

Historically, reserves on one-year renewable term policies have consisted of a basic reserve for the current term period of one-half the cost of insurance for the current term period, plus a deficiency reserve, if any. The application of the Commissioners Reserve Valuation Method to determine basic reserves and deficiency reserves for such policies is subject to varying interpretations as noted in Walter O. Menge's paper, "Commissioners Reserve Valuation Method" written at the time of construction of the Standard Valuation Law.

> ...the adaptation of the commissioners reserve valuation method to fit policies for which the gross premium varies from year to year becomes a problem of generalization which, from a purely theoretical viewpoint, has an infinite number of possible solutions, some of which are practical and others of which are impractical.[1]

and

> For these reasons, it seems desirable not to formulate at this time any fixed rules for the valuation of these unusual types of policies and riders. The second paragraph of Section 4 of the Standard Valuation Law does not define the method of valuation of such contracts but requires that the method used, whatever it may be, must be consistent with that employed for uniform premium policies providing uniform insurance benefits, thus leaving open the possibility of a choice of several consistent methods.[2]

Acceptable Approaches

Two approaches to "consistent" reserves are suggested. The unitary policy approach considers such policies as variable premium policies up to the mandatory expiry date. Under this approach the valuation net premiums are a uniform percentage of gross premiums with the percentage fixed at issue date. If appropriate deficiency reserves are held, this approach has great appeal. However, it is susceptible to manipulation and illogical results. Reserves according to this approach should be acceptable only if the company can demonstrate that actual reserves, including deficiency reserves, for all renewable term business valued using this approach are of the same general magnitude as would occur using an approved method as defined below.

The other approach is to hold policy reserves for only the current period of years (not necessarily equal to the renewal period) during which the required premium per $1000 remains level, including deficiency

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reserves if appropriate. Additional reserves are established where net premiums, calculated on a basis which reflects current mortality, exceed gross premiums for future periods of level premiums. Although not speaking directly to valuation problems in this instance, the Hooker Committee report said:

> The question was raised whether a policy providing term insurance for several years, automatically followed by permanent insurance, should be considered as two separate policies for the purpose of the Act. In the Committee's opinion, the respective portions may be treated separately if the portion providing permanent insurance takes the Company's regular rate at the then attained age. The rated age provision in the law appears to cover this point. However, the Committee draws a distinction between policies providing purely term insurance followed by permanent insurance at the company's published rate at the attained age of conversion, and the policies providing for an initial premium such that the increased premium at subsequent duration differs from that for a new policy at the attained age. The latter case obviously constitutes a single policy to which the formula should be applied at the outset.[3]

The second sentence of the above quotation lends support to the approach of separating successive periods of level premiums.

Under this interpretation, an approved method is any method which produces reserves greater than or equal to the sum of policy reserves, including deficiency reserves, for the current period of level premiums calculated on the basis of the applicable mortality and interest standards and reserve method specified in the Standard Valuation Law plus additional reserves calculated according to the following applied uniformly to all such policies.

> The present value of the excess of test premiums for future periods of level premiums for which gross premiums are guaranteed over the respective gross premiums, such test premiums and present values being calculated on the Commissioners' 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors at 4 1/2 percent interest. For each plan of insurance with separate rates for smokers and nonsmokers an insurer may substitute the 1980 CSO Smoker and Nonsmoker Mortality Tables with Ten-Year Select Mortality Factors for the Commissioners' 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors.

In case a future gross premium exceeds the test premium, the excess shall be considered zero and not a negative amount. This is in accordance with the principle of anticipating no future profits but providing for all future losses.

Reinsured Business

If reinsurance is assumed under an agreement in which the reinsurer reserves the right to raise premiums to a level at least as great as the net valuation premiums, the reinsurer is not required to establish deficiency reserves or additional reserves, and the ceding company is not permitted to take credit for such reserves on the portion of the business which is required.

If a reinsurance agreement guarantees future reinsurance premiums, the reinsurer should establish deficiency reserves and additional reserves as required by this interpretation for the period for which reinsurance premiums are guaranteed, and the ceding company may take credit for such reserves against its deficiency and additional reserves on the portion of the business which is reinsured to the extent permitted by law.

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Adequacy of Reserves

Although the above alternative is acceptable as meeting the intent of the Standard Valuation Law, this does not in any way relieve the certifying actuary of the insurance company from exercising his own best judgment with respect to the appropriate reserves. In particular, the actuary should consider term contracts of this nature when he states his opinion that aggregate reserves "make a good and sufficient provision for all unmatured obligations of the company guaranteed under the terms of its policies" and "include provision for all actuarial reserves and related statement items which ought to be established."[4]

References

1. The Record, American Institute of Actuaries, Vol. XXXV, 1946, p. 270.

2. Ibid., p. 300.

3. 1947 NAIC Proceedings, 257.

4. Instructions for Completing NAIC Life and Health Annual Statement Blank, 1976, p. 1.

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Actuarial Guideline V

INTERPRETATION REGARDING ACCEPTABLE APPROXIMATIONS FOR CONTINUOUS FUNCTIONS

Text

For reserves and values using continuous functions:

(a) $\overline{D}_x = \int_0^1 D_{x+t}\,dt$

By assuming that D_{x+t} is linear for $0<t<1$

$\overline{D}_x = (D_x + D_{x+1})/2.$

By assuming that the deaths in the year of age x to x+1 are uniformly distributed over that year of age,

$\overline{D}_x = [(\delta-d)/\delta^2]D_x+[(i-\delta)/\delta^2]D_{x+1}$

where: $d = iv = i/(1+i)$

δ = force of interest

i = interest rate

(b) $\overline{C}_x = \int_0^1 D_{x+t}\,\mu_{x+t}\,dt$

By assuming that deaths in the year of age x to x+1 are uniformly distributed over that year of age,

$\overline{C}_x = (i/\delta)C_x.$

By assuming that the total deaths are concentrated at the middle of the year of age,

$\overline{C}_x = (1+i)^{1/2}C_x$ or $(1+i/2)C_x$.

Background Material

The actuarial mathematics used in calculating net premiums, reserves, and nonforfeiture values for life insurance policies was first developed using two basic assumptions. These basic assumptions are: (1) that all death benefits are payable at the end of the policy year of death and (2) that all gross premiums due under the policy are payable annually at the beginning of the policy year. Actuarial values which are calculated under these two basic assumptions are described as being calculated using curtate functions. For any specific mortality table and interest rate, all the necessary actuarial values are uniquely defined for a policy using curtate functions.

The Standard Valuation Law and the Standard Nonforfeiture Law define minimum reserves and minimum nonforfeiture values, respectively, for life insurance policies using curtate functions. These two model laws originated in the early 1940s when almost all insurance companies were using the two basic

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assumptions inherent in the curtate functions. However, the wording of the model laws does not prohibit insurance companies from using other assumptions if the resulting reserves and nonforfeiture values will always be at least as large as the minimum amounts defined in these laws.

Nowadays, many insurance companies do prefer to use alternative assumptions in computing the reserves and nonforfeiture values for their life insurance policies. These companies consider the alternative assumptions more appropriate for their policies. These alternative assumptions are: (1) that all death benefits are payable immediately upon death and (2) that all gross premiums due under the policy are payable continuously throughout the policy year.

Actuarial values which are calculated under both of the alternative assumptions, pertaining to death benefits and gross premiums, are described as being calculated using continuous functions. However, the underlying mathematics for continuous functions involves two integrals, representing the actuarial functions C_x and D_x, which must be approximated. In the past, there has been some disagreement among actuaries as to which approximations for the two integrals are the most suitable. Because of the use of different approximations for these two integrals, actuaries have obtained different numerical amounts for the necessary actuarial values using continuous functions even though these actuaries were working with the same mortality table and interest rate.

Some insurance companies prefer to calculate their reserves and nonforfeiture values assuming: (1) that death benefits are payable immediately upon death and (2) that all gross premiums due under the policy are payable annually at the beginning of the policy year. Thus, these companies are using the alternative assumption pertaining to death benefits and the basic assumption pertaining to gross premiums. The underlying mathematics for the combination of these two assumptions involves the integral C_x, which must be approximated. Thus, the use of these two assumptions together gives rise to essentially the same problem as using continuous functions.

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Actuarial Guideline VI

INTERPRETATION REGARDING USE OF SINGLE LIFE OR JOINT LIFE MORTALITY TABLES 20 JUNE 1983

The Standard Valuation Law and the Standard Nonforfeiture Law for Life Insurance apply to policies which provide joint life insurance benefits as well as to policies which provide single life insurance benefits. References in these laws to plans such as "nineteen-year premium whole life" or "a whole life policy...with uniform premiums for the whole of life" are to be interpreted as references to such plans based on the same life status(es) as the policy for which minimum reserves or nonforfeiture benefits are being determined. For example, if the net level annual premium on the nineteen-year premium whole life plan is needed to calculate the minimum reserve for a policy which insures two lives and pays a death benefit at the first death, the premium is to be that for a policy which insures two lives and pays a benefit at the first death. The same principle would apply to a policy which insures only one life, or a policy which pays a benefit at the first death of more than two lives. The principle also applies to a policy that pays a benefit on the death of t-th life of n lives (t is greater than 1 but less than or equal to n).

Background Material

The great majority of life insurance policies provide single life insurance benefits. These policies identify one specific individual as the named insured. A death benefit under the basic policy is payable if this named insured dies while the policy is in force. Usually, there are no further gross premiums due on and after the death of this named insured. The basic policy may provide endowment benefits which are conditional on the survival of this named insured. The policy does not contain any provisions whereby the amount of the death benefits, endowment benefits or gross premiums are affected by the survival or nonsurvival of any other persons besides the insured, except possibly in the settlement option provisions or in the provisions of an attached term insurance rider which requires an extra premium.

In contrast to policies which provide single life insurance benefits, policies which provide joint life insurance benefits depend on the survival or nonsurvival of two or more named insureds. Until quite recently, virtually all policies which provided joint life insurance benefits were written on the whole life insurance plan. Such policies paid the face amount as a death benefit on the death of the first of the named insureds to die, provided that the policy was then in full force. No further gross premiums were due after the death, and the policy terminated upon payment of the death benefit.

Recently, there has been increasing interest in plans providing joint life insurance benefits, and insurance companies have developed a variety of new life insurance plans. For example, some policies provide for payment of a death benefit only on the death of the last to die of the named insureds.

The Standard Valuation Law and the Standard Nonforfeiture Law clearly apply to policies which provide joint life insurance benefits as well as to policies which provide single life insurance benefits. Both of these model laws define an "expense allowance" which is added to the present value of the future guaranteed insurance benefits under the policy, and which affects the modified premiums used for computing minimum reserves and the adjusted premiums used for computing minimum nonforfeiture values. A different amount of "expense allowance" is defined for nonforfeiture values than that defined for reserves, but the principle is much the same.

Insurance companies are allowed to select "expense allowances" for use in computing their reserves and nonforfeiture values up to the level of the "expense allowances" defined in these model laws. A higher "expense allowance" would produce reserves or nonforfeiture values which are less than the minimum defined in the model laws, and therefore state insurance departments cannot permit companies to use a higher amount as an "expense allowance."

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The wording of these model laws is generally clear and precise in defining the "expense allowances" which are permitted for policies which provide single life benefits. However, the proper level of the "expense allowances" for policies providing joint life insurance benefits is not so clear. The "expense allowance" defined in the Standard Valuation Law depends on the modified net premium for a policy on the 20-payment whole life insurance plan, and the "expense allowance" defined in the Standard Nonforfeiture Law depends on the adjusted premium for a policy on the ordinary life plan.

Actuaries have had different opinions as to how to apply the joint life insurance mortality tables in order to obtain the modified net premium and the adjusted premium required by model laws, so as to calculate the "expense allowances" which are appropriate under those laws. The question has become increasingly important with the development of the new plans providing joint life insurance benefits.

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Actuarial Guideline VII

INTERPRETATION REGARDING CALCULATION OF EQUIVALENT LEVEL AMOUNTS

Text

Pure endowments will not be considered in the determination of equivalent level amounts for valuation and nonforfeiture purposes.

Background Material

The "Background Material" section relating to the previous actuarial guideline went into some detail concerning the "expense allowances" defined in the Standard Valuation Law and the Standard Nonforfeiture Law. See Actuarial Guideline VI, "Interpretation Regarding Use of Joint Life Insurance Tables."

This Actuarial Guideline VII is also concerned with the level of these "expense allowances" defined in these model laws. The most common plans of life insurance provide a level face amount as the death benefit, during the period the policy is in full force. These plans do not provide for any benefit which is payable as a pure endowment. (A pure endowment benefit pays a specified amount of pure endowment to the policyholder if the insured is still alive on the specified maturity date and if the policy is still in full force on this maturity date.) However, policies which provide for a death benefit which varies with the duration and policies which provide one or more endowment benefits can be legally written in most states.

The Standard Valuation Law and the Standard Nonforfeiture Law do apply to such policies with varying death benefits or pure endowment benefits. In fact, the wording of the model laws shows that considerable thought was given to the treatment of these kinds of policies. In the case of both model laws, the present value of future guaranteed benefits under the policy clearly includes both the death benefits and the "expense allowances" defined under these model laws.

The Standard Nonforfeiture Law includes a paragraph which reads as follows:

> In the case of a policy providing an amount of insurance varying with duration of the policy, the equivalent uniform amount thereof for the purpose of this Section shall be deemed to be the uniform amount of insurance provided by an otherwise similar policy, containing the same endowment benefit or benefits, if any, issued at the same age and for the same term, the amount of which does not vary with duration and the benefits under which have the same present value at the date of issue as the benefits under the policy; provided, however, that in the case of a policy providing a varying amount of insurance issued on the life of a child under age ten, the equivalent uniform amount may be computed as though the amount of insurance provided by the policy prior to the attainment of age ten were the amount provided by such policy at age ten.

While the wording of the above paragraph is rather complex, the meaning seems to be actuarially precise. The paragraph defines an "equivalent uniform amount" which affects the "expense allowance" defined in the law. The phrase "containing the same endowment benefit or benefits, if any" effectively means that pure endowment benefits are to be ignored in computing this "equivalent uniform amount." This "equivalent uniform amount" or "equivalent level amount" becomes a sort of weighted average of the death benefits provided by the policy, an average which is not affected in any way by the pure endowment benefits which may be provided by the policy.

The Standard Valuation Law is not nearly so clear on this point. It contains wording as follows:

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> Reserves according to the Commissioners Reserve Valuation Method for (1) life insurance policies providing for a varying amount of insurance----shall be calculated by a method consistent with the principles of the preceding paragraph-----.

(Note that the quoted wording refers back to the preceding paragraph in the Standard Valuation Law. It does not intend to refer to the paragraph quoted from the Standard Nonforfeiture Law.)

Most actuaries have interpreted the Standard Valuation Law so as to use an "equivalent level amount" which is not affected by any pure endowments included in the policy. They would then use this "equivalent level amount" to calculate the "expense allowance" defined in the model law. This "equivalent level amount" is also a weighted average of the death benefits provided by the policy, in the same fashion as the "equivalent uniform amount" used in applying the Standard Nonforfeiture Law. Some insurance companies use the same "equivalent level amount," for the purpose of the Standard Valuation Law, as the "equivalent uniform amount" defined in the Standard Nonforfeiture Law. Other companies use a very similar calculation to obtain a special "equivalent level amount," for the purpose of the Standard Valuation Law, based only on the death benefits provided on and after the first policy anniversary.

Some actuaries have felt that the wording of the Standard Valuation Law permits an alternate calculation of the "equivalent level amount" which would be affected by pure endowment benefits. Such an "equivalent level amount" would be used to calculate an "expense allowance" under the Standard Valuation Law, even though the "equivalent level amount" no longer has the character of a weighted average of the death benefits provided by the policy.

The inclusion of the pure endowment benefits in the calculation of the "equivalent level amount" would affect the level of the "expense allowance" defined in the Standard Valuation Law, and therefore, it would affect the level of the minimum reserves required by the policy. Typically, the denominator of the fraction used in calculating the "equivalent level amount" would remain the same, but the numerator of this fraction would be increased because of this inclusion. Thus the "equivalent level amount" itself and the resulting "expense allowance" defined in the Standard Valuation Law would also be increased with the inclusion. The end result of the inclusion would be lower minimum reserves at every duration.

If the amounts and maturity dates of the new pure endowment benefits were carefully selected, a considerable degree of reduction in the reserve factors would probably be possible.

This actuarial guideline would expressly prohibit including the pure endowment benefits in determining the "equivalent level amount" for either valuation or nonforfeiture purposes. As explained under "Background," the need for this actuarial guideline arises primarily for valuation purposes under the Standard Valuation Law. The wording of the Standard Nonforfeiture Law is sufficiently precise that this actuarial guideline is virtually a truism for the purpose of calculating nonforfeiture values.

The purpose of this actuarial guideline is to assist state insurance departments and insurance company actuaries by identifying a method of calculating "equivalent uniform amounts" and "expense allowances" which is not considered proper and which will not be accepted.

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Actuarial Guideline VIII

THE VALUATION OF INDIVIDUAL SINGLE PREMIUM DEFERRED ANNUITIES

Text

With respect to those states which have enacted the 1976 amendments to the Standard Valuation Law; individual single premium deferred annuity reserves shall at least equal the greatest of any of the discounted values of all guaranteed future benefits including cash surrender values available after the date of valuation, such benefits discounted to the valuation date at the maximum permissible statutory interest rate. This method applies to all individual single premium deferred annuities which are subject to the provisions of the Standard Valuation Law in those states which have enacted the 1976 amendments. For those states which have not yet enacted the 1976 amendments this interpretation is a method of valuing individual single premium deferred annuities.

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Actuarial Guideline IX

FORM CLASSIFICATION OF INDIVIDUAL SINGLE PREMIUM IMMEDIATE ANNUITIES FOR APPLICATION OF THE VALUATION AND NONFORFEITURE LAWS

Text

Solely for the purposes of the applicable Valuation and Nonforfeiture Laws, an individual single premium annuity shall be considered to be immediate, as opposed to deferred, provided:

1. The first annuity payment is due not more than thirteen months from the annuity issue date;

2. succeeding payments under the annuity, after the initial payment, are due at regular intervals no less frequently than annually;

3. in the case of a fixed benefit annuity, the total guaranteed payments due in any contract year are not greater than 115% of the total guaranteed payments due in the immediately preceding contract year. In the case of variable annuities and indexed annuities, the same characteristic would be required for the underlying pattern of payments, before adjustments which are made solely because of the performance of the separate account associated with a variable annuity or the changes in the associated index. (This characteristic is not intended to prevent or reduce any lawful nonguaranteed payments under the annuity which are in the nature of dividends or excess interest credits.)

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Actuarial Guideline IX–A

USE OF SUBSTANDARD ANNUITY MORTALITY TABLES IN VALUING IMPAIRED LIVES UNDER STRUCTURED SETTLEMENTS

Text

The Standard Valuation Law permits modifications of annuity mortality tables. Solely for the purpose of valuing:

1. Periodic benefits arising from settlements of various forms of claims pertaining to court settlements or out of court settlements from tort actions, such as arising from accidents or medical malpractice;

2. Settlements involving similar action such as workers' compensation; or

3. Settlements of long term disability claims where a temporary or life annuity has been used in lieu of continuing disability payments.

A substandard annuity mortality table may be used where the annuitant (or measuring life) is the injured party and there are relevant hospital records, treating physicians' reports, and/or independent medical evaluations from those medical doctors that are or have been involved in the care of the injured party, that have been used during the underwriting process and have been retained in the underwriting file of the company as proof of the individual's impaired health and shortened longevity.

In such case the insurer may modify the statutory annuity mortality table or tables cited in Section 3a of the Standard Valuation Law or in any regulation promulgated pursuant to such section so as to reflect the longevity based on a medical doctor's written evaluation or records as indicated above. The table may be modified by a percentage of standard mortality or by a specified number of extra deaths or by a combination thereof, provided that the mortality table so adjusted produces reserves that are at least as great as the minimum reserves indicated below. The percentage extra mortality or the specified number of extra deaths may vary by duration. A rated age with the standard annuity table which is approximately equivalent to the actual age on the substandard annuity table may be used only if the procedure is modified to produce reserves that at each duration are at least as great as the minimum reserves indicated below.

The fact that a company has held minimum reserves as herein described shall in no way relieve the actuary from considering whether such reserves are adequate.

Minimum Reserves

The minimum reserves for applicable annuity contracts are the reserves obtained by making a constant addition to the mortality rate of the otherwise applicable valuation mortality table such that the expectation of life on the adjusted valuation table is greater than or equal to the average of the expectations of life indicated by or obtained from information given by the company's medical directors or underwriters during the underwriting and pricing process. The constant addition to the mortality table herein described shall be made as of the issue date and, once determined, held constant for the period of time that the contract remains in force. The addition of a constant to the valuation mortality rate produces a gradually declining percentage extra mortality such that reserves will grade into standard reserves at the end of the standard valuation mortality table thereby making the reserve more conservative (closer to standard) each year that the annuitant or measuring life lives.

For annuitants (measuring lives) other than the injured person in such settlements, the actual age and a standard annuity mortality table specified in Section 3A of the Standard Valuation Law or in any subsequent regulation promulgated thereto or any modification of such table which produces reserves at

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least as high as those that would be produced under the standard table based on the actual age must be used.

For contracts not included in one of the three categories described in the first paragraph of the Guideline, standard reserves at the actual age shall be held.

Where an insurer uses a modified table with higher mortality rates or a rated age with an unmodified table for impaired lives under structured settlements, such insurer shall maintain records of actual to expected mortality to monitor the appropriateness of the substandard mortality.

Background

Structured settlements take their name from the fact that the settlements, which arise from tort action, including workers' compensation claims, are frequently structured to fit the circumstances of the injured party and/or the injured party's dependents. The injured party and/or dependents are apt to be much younger than normal retirement age such that the payments may well stretch out for 30, 40, and 50 years or more. Some payments are certain; others are contingent upon the measuring life being alive at the time of payment.

The volume of structured settlement business has boomed in recent years. Periodic and deferred payments have been encouraged and even mandated in some states as a means of controlling costs under malpractice claims and ensuring that the monies would be available in future years and not squandered as could happen with lump sum payments. Periodic and deferred payments may be a result of settlement of automobile claims, other accidents involving tort action, as well as workers' compensation claims and medical malpractice claims, where the individual(s) upon which the tort or other action was based may well be substandard.

At the time of the adoption of the NAIC 1980 revisions of the Standard Valuation Law (SVL), structured settlement business was relatively minor, and how to treat such business was not explicitly covered in the SVL.

The SVL allows for modification of the standard annuity mortality table specified in the minimum valuation standard. Any modification had traditionally been such as to result in higher reserves. If lower reserves were produced, it could render the minimum meaningless.

In case of structured settlements, the injured party may be highly substandard. If an insurance company had to set up reserves on a standard table, or on a basis that grades into standard mortality too rapidly, it could result in either an excessive price for the payments or it could result in such a level of surplus strain to the insurer. If the price reflects the actual expected mortality, that the coverage might not be offered at all. To encourage settlements involving periodic payments, it is recommended that, in the limited area involving the injured party, the table may be modified so as to reflect the expected mortality based on the relevant medical records, reports and/or evaluations described earlier.

Since this is an area with little experience, it is required that an insurer monitor the experience in order to be able to justify its choice of adjusted mortality assumption.

It is recognized that at issue the vast bulk of the liability normally pertains to payments that are certain and not contingent upon survival, since the vast majority of substandard contracts contain a certain period and most of the benefits either fall within that certain period or are guaranteed to be paid. It is also noted that the interest discount factor in the early durations is far more important than the mortality element. The selection of the interest discount factor is the subject of Guideline IX-B.

Because experience and methodology are still emerging for substandard annuities, it is expected that this whole subject will be reviewed again in the not too distant future, both as it applies to whether the criteria

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herein established for settlement annuities are too conservative and also whether or how it might be acceptable to apply similar standards to substandard non-settlement annuities.

Effective Date

Where the requirements of this Guideline produce higher reserves than those calculated by an insurer, such insurer may continue its present procedures for the 1989 year end valuation, but must comply with this Guideline for 1990 and later issues for the 1990 and later valuations and for all of its business by the 1993 year end valuation.

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Actuarial Guideline IX–B

CLARIFICATION OF METHODS UNDER STANDARD VALUATION LAW FOR INDIVIDUAL SINGLE PREMIUM IMMEDIATE ANNUITIES, ANY DEFERRED PAYMENTS ASSOCIATED THEREWITH, SOME DEFERRED ANNUITIES, AND STRUCTURED SETTLEMENTS CONTRACTS

Text

1. Solely for the purpose of applying the Standard Valuation Law, an annuity shall be considered as a series of payments not less frequently than annually over five years or more wherein the payments in any one contract or calendar year (at the option of the insurer) do not exceed 115% of the payments in the immediately preceding contract or calendar year. An immediate annuity is an annuity wherein the first payment begins in thirteen months or less from issue and a deferred annuity is an annuity wherein the first payment begins more than thirteen months after issue. A series of payments over less than five years otherwise qualifying as an annuity shall be considered equivalent to a lump sum. Any payments in a year in excess of 115% of the prior year's payments may be considered as a lump sum or equivalent thereto or may be considered as part of a new annuity depending on the circumstances. Some contracts may consist of combinations of annuities and of lump sums.

2. Where the deferred income payments are guaranteed and there are no cash settlement options, the reserve shall be based on the present value of the income payments based on an appropriate annuity mortality table and the valuation rate of interest in accordance with the Standard Valuation Law based on the issue year method and a guarantee duration equal to the number of years from the date of issue to the date the first payment begins.

3. At the time benefit payments begin, whether under single premium immediate annuity contracts, supplementary contracts providing for annuity payments or deferred annuity contracts (with the first payment deferred more than thirteen months), the insurer may use the valuation interest rate for the calendar year in which (a) the deferred contract was issued or (b) the consideration was received or (c) the payments begin, but must apply such procedure elected in a consistent manner

4. Individual structured settlements vary considerably in payment pattern and duration. These contracts may provide for both level and/or increasing periodic payment schedules, as well as lump sum benefit payments. In valuing individual structured settlements, a split of all or a portion of the lump sum payments from the annuity payments may be appropriate. Such splits should be at the discretion of the valuation actuary. However, splits not in accordance with (5)(a) or (5)(b) and with (6)(a) below would require valuation in accordance with procedure (6)(b) or (6)(c) below.

5. For a block of single premium immediate annuities, deferred annuities without cash settlement options, structured settlement business with the annuity portion having no cash settlement options or other contracts having some portion with periodic payments without cash settlement options, issued in a given calendar year, the calendar year valuation interest rate appropriate for single premium immediate annuities where the first payment begins in thirteen months or less after issue and for Plan Type A contracts without cash settlement options based on the date to first payment where the first payment begins more than thirteen months after issue may be used provided:

    a. The guaranteed payment under each contract in the block due in any contract or calendar year (at the option of the insurer) after the first is not greater than 115% of the guaranteed payment due in the immediately preceding contract or calendar year, and once payments

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begin such payments are not less frequent than annually and are payable over five years or more; or

b. The total guaranteed payments under all contracts combined included in the block due in any calendar year after the first are not greater than 110% of the total guaranteed payments due in the immediately preceding calendar year but only contracts having payments not less frequent than annually for at least five years shall be included.

The year to year comparison of benefits may be made before or after considering the effect of mortality or any certain period, but the actuary should be prepared to indicate which method is used.

6. If a block of immediate annuities, deferred annuities without cash settlement options, structured settlement contracts with the annuity portion having no cash settlement options, or other contracts having some portion with periodic payments without cash settlement options fails the test described in (5) above, then one of the following procedures must be used.

a. The block must be divided into components so that the contracts/payments satisfying the tests are included in one or more components and those not satisfying the tests are included in another component or other components. The Plan Type A valuation interest rate or rates may be used for the component or components which satisfies the test. The Plan Type A guarantee duration is the number of years from the date of issue or date of purchase to the date that the first annuity payment is due. The maximum valuation interest rate for any payment included in a component which does not satisfy the test shall be determined using the guarantee duration of the lump sum payment including installments over less than five years and on the assumption that the payment is made under a contract of Plan Type A. The Plan Type A guarantee duration of a lump sum payment is the number of years from the date of issue or date of purchase to the date that payment or the first installment payment is due. Year of issue valuation interest factors must be used. The actuary should be prepared to describe the components and justify the choice of valuation interest rate or rates for the component or components of the block which, if included, would cause the block to fail the test.

b. The reserves for each contract for each valuation year shall be the greater of the "level interest rate reserves" and/or the "graded interest rate reserves." Graded interest rate reserve factors for each separate year of issue for all future payments of such year of issue, whether periodic or lump sum payments, shall be graded in a manner that produces reserves at least as great as the method described in the balance of this paragraph.

(i) Step one, calculate the present value of future benefits at issue for each contract using the appropriate level Plan Type A interest rate for contracts without cash settlement options for the guarantee duration corresponding to the number of years from the date of issue or date of purchase to the date that the first payment is due. Call this value PV (0), and call reserves at successive durations using the appropriate (level) Plan Type A interest rate "level interest rate reserves."

(ii) Step two, solve for "X percent" such that the present value of future benefits at issue for each contract is equal to PV (0) (calculated in Step one), using "X percent" as the valuation interest rate for the first twenty contract years after issue and thereafter the Type A interest rate for contracts without cash settlement options for guarantee durations of more than twenty years. However, "X percent" shall not be greater than 115% of the appropriate Type A interest rate in step one; where such limit is effective, the present value at issue will be greater than PV (0).

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(iii) For each valuation year calculate "graded interest rate reserves" based on the assumption that the valuation interest rate during the first twenty contract years is "X percent" as calculated in step two and thereafter is the Plan Type A interest rate for contracts without cash settlement options for guarantee durations of more than twenty years.

(iv) In lieu of the individual contract valuation above, a group valuation may be made as for example on the assumption that all contracts issued during a given year are issued as a single contract on July 1, and once X% is determined for such year, it need not be redetermined; or

c. Any other method producing reserves at least as great as (a) or (b) and specifically approved by the Commissioner.

7. Where the requirements of this guideline produce higher reserves than those calculated by an insurer in good faith based on a more liberal interpretation, such insurer may continue its present procedures for the 1989 year end valuation but must comply with this guideline for 1990 and later issues for the 1990 and later year end valuations and for all its inforce, subject to the 1980 amendments to the NAIC Model Standard Valuation Law, by the 1993 year-end valuation.

8. The examiner should request that the insurer demonstrate that the assets are sufficient for the liabilities by cash flow projections of the supporting assets and the liabilities under various interest scenarios, in particular for declining interest rates.

9. The examiner should note that date of acquisition and the yields of the supporting assets and compare such with the date of issue of the structured settlements and the valuation interest rates. If such differ, the examiner may request a new valuation using the date of acquisition of the majority of the supporting assets and the date of issue of remaining payments. This is especially important where, for example, an insurer during 1986 exchanged high yielding assets originally acquired in 1982 for low yielding assets acquired in 1986. Also, many of the high yielding assets may have been called during 1986. Also, due to the long-term nature, often as many as 30, 40, and 50 years, the increasing nature of the payments and the lump sum payments, the value of future payments with a single fixed interest rate may actually increase after issue. The result is that there is a large reinvestment risk and large liabilities may exist after all the original supporting investments have matured and new investments acquired.

10. The procedures above are interim procedures pending a reconstitution of the valuation laws.

Background

Current Actuarial Guideline IX provides guidance for determining what is an immediate annuity but it does not advise how contracts failing to meet the test should be treated for valuation purposes. Three examples of failing contracts are: (1) annual payments increasing 120% each year, (2) level payments payable biannually, (3) level annual payments with extra lump sum payments equal to four times a regular annual payment payable every five years. These examples are not practical examples for annuity payments beginning at normal retirement ages such as 60, 65 or 70 under individual or group retirement programs, but combinations of irregular payments and increasing regular payments are practical under structured settlements.

At the time of the adoption of the NAIC 1980 revisions of the Standard Valuation Law, structured settlement business was relatively minor, and how to treat such business was not explicitly covered in the SVL. The volume of structured settlement business has boomed in recent years. Periodic and deferred payout was encouraged and even mandated in some states as a means of controlling costs under malpractice claims and ensuring that the monies would be available in future years and not squandered as

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could happen with lump sum payments. Periodic and deferred payments may result in settlement on automobile claims, other accidents involving tort action as well as medical malpractice claims and workers' compensation claims such that the individuals may well be substandard.

Where payments are contingent on the individual being alive, under a related guideline, substandard annuity mortality tables may be recognized for valuation based on a written evaluation of the injured individual's longevity by a medical doctor. For all other annuitants, substandard annuity mortality tables should not be recognized as such is contrary to the establishment of minimum reserves for such annuitants. However, the vast bulk of reserves for structured settlements is based on certain payments, such that the valuation interest rate is by far the more important factor. This guideline covers valuation procedures and valuation interest rates leaving application of substandard annuity mortality tables to Guideline IX-A.

Structured settlements take their name from the fact that the settlements are frequently structured to fit the circumstances of the injured party and/or the injured party's dependents. The injured party and/or dependents are apt to be much younger than normal retirement age such that the payments may well stretch out for 30, 40, and 50 years or more. Lump sum payments may be scheduled to coincide with particular events such as college for dependent children.

The 1980 changes in the SVL initiated a set of valuation interest factors for each year of issue so as to roughly have the factor correspond to the investment rates at the time at which monies are received and invested. In 1980 the emphasis in the dynamic valuation interest rate was on the valuation interest rates for group guaranteed interest contracts (GIC). Group GIC's generally have had a guaranteed interest period of 5-10 years with a lump sum available at the end of the period. Any renewal of an interest guarantee and period is generally considered as a new issue for valuation purposes, whether the year of issue or the change in fund method is used.

Most retirement annuities under individual or group programs had level or slightly increasing payments with payments beginning at age 60, 65 or 70 such that for annuities in course of payments, there should be little reinvestment risk and reserves should decrease.

There is a large reinvestment risk in case of structured settlements. There is also a risk that the original assets may be called or exchanged for lower yielding assets.

Guideline IX-B would split up the contract and treat that portion of the payments meeting the test as an annuity and any excess payments separately for purposes of determining the appropriate valuation interest factors based on the duration to first payment of such excess. The guideline also offers a new dual interest procedure as an alternative to splitting the payments.

The guideline recognizes that the use of the statutory formulae with the rates determined based on the date of purchase may be inappropriate where the assets have been exchanged or acquired in later years. It is suggested that the examiner may wish to adjust the issue year for selection of the valuation interest factors so as to make them consistent with the date of investment.

It is recognized that these procedures for determining statutory formulae reserves are only temporary while the Special Committee on Valuation is developing a new statutory formula to go along with a valuation of liabilities based on the supporting assets and the actuary's best judgment to account for reasonable deviations.

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Actuarial Guideline IX–C

USE OF SUBSTANDARD ANNUITY MORTALITY TABLES IN VALUING IMPAIRED LIVES UNDER INDIVIDUAL SINGLE PREMIUM IMMEDIATE ANNUITIES

The NAIC model Standard Valuation Law, Section 4a, A(2), permits modifications of annuity mortality tables approved by the commissioner. In states which have adopted this or similar Standard Valuation Law language, this guideline provides for modifications of annuity mortality tables solely for the purpose of valuing:

> Individual single premium immediate annuities not covered by Guideline IX-A, but for which medical records indicate the expectation of life has been reduced and for which the premium charged reflects such reduction,

a substandard annuity mortality table may be used where the annuitant (or measuring life) has relevant hospital records, treating physicians' reports, and/or independent medical evaluations from those medical doctors that have been used during the underwriting process and have been retained in the underwriting file of the company as proof of the individual's impaired health and shortened longevity. The medical assessment must support at least a 25% reduction in the expectation of life (based on either the current valuation table or the company's pricing table, consistently applied) compared to a normally healthy individual at the same age and gender.

In such case the insurer may modify the statutory annuity mortality table or tables cited in Section 3a of the Standard Valuation Law or in any regulation promulgated pursuant to such section so as to reflect the longevity based on a medical doctor's written evaluation or records as indicated above. The table may be modified by a percentage of standard mortality or by a specified number of extra deaths or by a combination thereof, provided that the mortality table so adjusted produces reserves that are at least as great as the minimum reserves indicated below. The percentage extra mortality or the specified number of extra deaths may vary by duration. A rated up age with the standard annuity table which is approximately equivalent to the actual age on the substandard annuity table may be used only if the procedure is modified to produce reserves that at each duration are at least as great as the minimum reserves indicated below.

The fact that a company has held minimum reserves as herein described shall in no way relieve the actuary from considering whether such reserves are adequate.

Minimum Reserves

The minimum reserves for applicable annuity contracts are the reserves obtained by making a constant addition to the mortality rate of the otherwise applicable valuation mortality table. The amount of the constant addition is determined as follows:

1) Calculate the present value of future benefits at issue for each contract using a rated up age, the applicable valuation mortality table, and the appropriate level Plan Type A interest rate for contracts without cash settlement options. The rated up age must produce an expectation of life under this valuation mortality table whose percent reduction from the actual age expectation of life under this table is not greater than the percent reduction in the expectation of life, supported by the medical assessment above, which qualified the contract to utilize the mortality adjustments provided by this actuarial guideline.

2) Solve for the constant addition to the true age mortality rates such that the present value of future benefits at issue is equal to or greater than the present value obtained in 1). The base mortality table and the valuation interest rate shall be the same as used in 1).

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The constant addition to the mortality table herein described shall be made as of the issue date and, once determined, held constant for the period of time that the contract remains in force. The addition of a constant to the valuation mortality rate produces a gradually declining percentage extra mortality such that reserves will grade into standard reserves at the end of the standard valuation mortality table thereby making the reserve more conservative (closer to standard) each year that the annuitant or measuring life lives.

Where an insurer uses a modified table with higher mortality rates or a rated age with an unmodified table for impaired lives under individual single premium immediate annuities, such insurer shall maintain records of actual to expected mortality to monitor the appropriateness of the substandard mortality. The appointed actuary must comment on the appropriateness of the substandard mortality and report any material deviations. Such comments and report should be provided in the actuarial memorandum which supports the annual actuarial opinion.

Background

Guideline IX-A provides a methodology to allow less than a standard reserve to be held at issue for certain kinds of pay-out annuities and for grading the reserve toward standard reserves over the remaining lifetime of the annuitant using the "constant extra death" method (CED). The longer the annuitant lives, the closer reserves get to standard reserves.

Guideline IX-A says, "Because experience and methodology are still emerging for substandard annuities, it is expected that this whole subject will be reviewed again in the not too distant future, both as it applies to whether the criteria herein established for settlement annuities are too conservative and also whether or how it might be acceptable to apply similar standards to substandard non-settlement annuities".

It has now been almost 11 years since Guideline IX-A was adopted and it appears the industry has done a responsible job of underwriting and valuing substandard annuities covered by Guideline IX-A. Structured settlement mortality studies done by the Society of Actuaries bear this out. (See the 1995-1996 Reports of the Society of Actuaries, starting on page 395.)

Guideline IX-A has been successful in allowing structured settlements to be priced fairly and has benefited injured parties and society in general. There is no evidence that there has been any strain to insurance companies from under reserving due to Guideline IX-A.

For some time, a number of companies have had a significant and increasing opportunity to provide immediate annuities at less than standard price to a growing number of potential clients not covered by Guideline IX-A. However, the potential price reductions that the industry can give consumers, perhaps 15% to 25% of the single premium on some cases, depending on the benefit stream desired, are greatly reduced because of the current requirement to hold standard reserves. The initial statutory strain (loss) on highly substandard cases can easily exceed 50% or 100% of the single premium, which requires a significantly increased price to the customer over what could be charged if less than standard reserves were permitted. With Guideline IX-A type reserves, the strain might be reduced to something closer to 10%.

The population is aging and the need for fairly priced single premium immediate annuity benefits is substantially increasing. Forcing companies to hold standard reserves results in many people being overcharged (for the extra cost of capital associated with the higher reserve) at a time in their life when they may have the greatest need.

Since this is an area with little experience, it is required that an insurer monitor the experience in order to be able to justify its choice of an adjusted mortality assumption. It is recognized that the initial liability pertains to a large extent to payments that are certain and not contingent upon survival. This is because the majority of non-settlement substandard contracts contain a certain period and most of the benefits fall

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within that certain period. It is also noted that the interest discount factor in the early durations is far more important than the mortality element. The selection of the interest discount factor is the subject of Guideline IX-B.

Because the standard annuity valuation table is an aggregate table, there is some concern that carving out the substandard lives may cause the table to be inadequate for the remaining lives. As a result, it is recommended that an individual life have a significant impairment before use of a substandard valuation table is allowed. For this purpose, significant has been defined as a medical condition that reduces the expectation of life of the individual by at least 25% compared to a normal, healthy life. The reasoning is that not very many lives that are significantly substandard (i.e. greater than a 25% reduction in the expectation of life) are contained in the underlying mortality of individual non-settlement annuity mortality tables. Thus, treating them separately will not diminish the adequacy of the standard table. For convenience, either the applicable individual annuity valuation table or the company's pricing table can be used to measure the change in the expectation of life.

A public policy issue was discussed wherein this actuarial guideline could be viewed as rewarding unhealthy behavior. However, this actuarial guideline would benefit others who were simply unfortunate to be in an impaired condition. It was noted that it would be difficult or impossible to carve out those with intentionally unhealthy behavior. Ultimately it was believed that this actuarial guideline provides for reasonable public policy to facilitate lower single premiums for substandard annuitants.

Effective Date

This Guideline will be effective for contracts issued on or after January 1, 2001.

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Actuarial Guideline X

GUIDELINE FOR INTERPRETATION OF NAIC STANDARD NONFORFEITURE LAW FOR INDIVIDUAL DEFERRED ANNUITIES

Text

For contracts which provide cash surrender benefits, the NAIC Model Law prescribes a basis for determination of minimum cash surrender benefits. That law does not require that a company grant additional amounts in excess of the amounts guaranteed in the contract, either in the form of excess interest credits or otherwise. When such additional amounts have been credited to the contract, the question of how the Model Law applies to such amounts must be considered.

Under one interpretation the portion of the maturity values which would arise from such amounts may be discounted to the date of surrender at an interest rate 1% higher than the rate specified in the contract for accumulating such amounts. This interpretation would permit a surrender charge against such amounts on the same basis as the surrender charge which may be applied to the contractually guaranteed portion of the interest credited to the contract.

Under another interpretation such amounts could not be treated as providing a portion of the maturity value and, therefore, would be included in the phrase "any additional amounts credited by the company to the contract." This interpretation would require that the cash surrender value be increased by 100% of the accrued value of such amounts.

By providing for a surrender charge to be made in determining the minimum cash surrender value, the Model Law enables a company to provide for recovery of all or part of any (1) excess first year expenses not yet recovered, and (2) potential investment losses at surrender. The reason for permitting surrender charges to be made against accumulated amounts of contractually guaranteed interest are equally valid reasons for permitting surrender charges against any non-guaranteed interest credited. If such surrender charges were not permitted, companies offering such contracts may be discouraged from crediting as much additional interest as they might if the additional interest were to contribute to the minimum cash surrender value in the same manner as do the interest amounts derived from the rates guaranteed in the contract.

In view of the above considerations, the following guidelines are recommended:

I. Treatment of Amounts of Excess Interest Credited to Deferred Annuity Contracts

The NAIC Standard Nonforfeiture Law for Individual Deferred Annuities shall be interpreted to permit the portion of the maturity value which would arise from the amounts of interest credited in excess of the minimum rates guaranteed in the contract to be discounted to the date of surrender at an interest rate 1% higher than the rate specified in the contract for accumulating such amounts, provided such excess interest is declared prior to the period for which it is to be effective, and provided such excess interest accrues over the effective period. Amounts of excess interest treated in accordance with the above interpretation shall not be included by the phrase "additional amounts credited by the company to the contract" in Section of the Model Law.

II. Treatment of Dividends Credited to Deferred Annuity Contracts

No single rule can be given for the treatment of dividends credited to deferred annuity contracts. The contractual wording of the applicable dividend option must be taken into account together with the appropriate provisions of the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities.

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If the dividend option in effect provides that dividends be left on deposit at interest, without any further qualification, then the cash surrender value should be increased by the full accumulated amount. In this case, the phrase "increased by any additional amounts credited by the company to the contract" applies and no surrender charge may be made.

In other cases, the dividends may be added, directly or indirectly, to the contractual value and made subject to the surrender charge provision. This would be the case when dividends are applied to purchase additional paid-up benefits or applied as premiums.

Contracts may contain other provisions or variations of these provisions. In such cases, the terms of the contract and the provision of the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities should be taken into account.

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Actuarial Guideline XI

EFFECT OF AN EARLY ELECTION BY AN INSURANCE COMPANY OF AN OPERATIVE DATE UNDER SECTION 5-C OF THE STANDARD NONFORFEITURE LAW FOR LIFE INSURANCE

Section 5-C of the Standard Nonforfeiture Law for Life Insurance May be Made Operational for One or More Plans at a Time Provided That:

A. Sales are discontinued in this state on all like plans using rates and values generated by past requirements;

B. Sales are discontinued in all other states which have enacted the new legislation on all like plans using rates and values generated by past standards, provided the state of sale has allowed changes to 1980 requirements on a plan-by-plan basis;

C. Once the new law has been made operational for one plan, the new law shall be operational for all subsequent new plans of the same generic form to be marketed in this state unless the insurer can demonstrate to the Commissioner's satisfaction the need to continue the prior set of requirements;

"Like plans," as mentioned in Sections A and B, refers to plans with the same benefits, including cash values, and with the same premium paying period and pattern of premiums;

"Generic form," as mentioned in Section C, refers to generic groups, such as ordinary vs. group, term vs. permanent, flexible cash value vs. fixed cash value, separate account vs. fixed account.

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Actuarial Guideline XII

INTERPRETATION REGARDING VALUATION AND NONFORFEITURE INTEREST RATES

Actuarial Guideline XII was withdrawn on March 7, 1993.

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Actuarial Guideline XIII

GUIDELINE CONCERNING THE COMMISSIONERS' ANNUITY RESERVE VALUATION METHOD

Preamble

At its December 1976 meeting, the NAIC adopted the Commissioners' Annuity Reserve Valuation Method (CARVM) and incorporated it in its Model Standard Valuation Law. CARVM is now included in the laws of nearly all of the states. Differences in interpretation of CARVM have developed in practice, particularly on whether and under what conditions surrender charges may be taken into account in determining CARVM reserves. This guideline is intended to clarify which surrender charge factors may be taken into account and which are to be disregarded under CARVM.

Reserves according to CARVM depend in part upon the present values of "future guaranteed benefits, including guaranteed nonforfeiture benefits." It has always been recognized that this phrase, as used in the NAIC Model Standard Valuation Law, includes cash surrender values based on contractual guarantees after reduction for any contractual surrender charges available to the insurer. This is illustrated in the Proceedings. See *Proceedings of the National Association of Insurance Commissioners*, Vol. 1 (1977), 538-45.

Guideline

The phrase, "future guaranteed benefits, including guaranteed nonforfeiture benefits," as used in CARVM include the cash surrender values based on contractual guarantees after reduction for any surrender charges available under the contract.

In recent years, annuity contracts with contingent surrender charges have become more prevalent. For example, a contract may provide the option to surrender without surrender charge if the rate at which interest is credited falls below a specified rate, referred to in this guideline as the "bail-out" rate. Contingent surrender charges may not be available upon cash surrender at future contract anniversaries, and it is not consistent with the conservative nature of CARVM to reduce the value of future guaranteed benefits on account of such contingent surrender charges.

The value of future guaranteed benefits under CARVM may not be reduced by contingent surrender charges which may not be available upon cash surrender.

There may be some contracts with contingent surrender charges with bail-out rates which are so low that it would not be contrary to the conservative intent of CARVM to treat such surrender charges as available. The calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years, which is used in the Standard Valuation Law in connection with the definition of guaranteed duration for most annuities and guaranteed interest contracts, provides an appropriate measure for this purpose. Whether or not such surrender charges should be treated as available should be determined as of December 31, 1984 for contracts in force at the date and as of the date of issue for contracts subsequently issued.

For contracts issued on and after January 1, 1985, contingent surrender charges with bail-out rates less than or equal to the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years issued in the same year may be treated as available. For contracts issued prior to January 1, 1985, contingent surrender charges with bail-out rates less than or equal to 6.00% (the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years issued in 1984) may be treated as available.

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There are some contracts with contingent surrender charges with bail-out rates which are a function of an external index whose future values are not known. Judgment is required to determine whether or not such surrender charges may be treated as available. Comparison to the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years may be useful.

For contracts with contingent surrender charges with bail-out rates which are a function of an external index, a judgment as to the availability of the surrender charges may be made by comparing historical values of the function with corresponding values of the calendar year statutory valuation interest rate for life insurance with guarantee duration in excess of twenty years. If the values of the function have generally been less than or equal to the valuation rates, then the surrender charges may be treated as available.

For the purpose of this guideline, in the case of a variable annuity that offers the policyholder a choice of multiple investment options, a surrender charge that may be waived for all the accounts of the contract by reference to one or more of the accounts will be treated as a contingent surrender charge that may not be available upon cash surrender with respect to the entire contract. If no surrender charge is imposed on transfers among the accounts, and the surrender charge may be waived for one account, provided the formula for the availability of the waiver is set at the date of issuance, then the surrender charge will be treated as a contingent surrender charge that may not be available upon cash surrender with respect to the entire contract.

Since this guideline is intended to apply to all contracts in force that are subject to CARVM, its application may work an undue hardship on some insurers who have, on the basis of a good faith interpretation of CARVM, held reserves less than required by this guideline. In cases of severe hardship, state insurance commissioners may wish to permit insurers to conform on a gradual basis.

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Actuarial Guideline XIV

SURVEILLANCE PROCEDURE FOR REVIEW OF THE ACTUARIAL OPINION FOR LIFE AND HEALTH INSURERS

To assist regulators in their responsibility for surveillance of life and health insurers, the NAIC adopts the following interim procedure for use of the Actuarial Opinion to be used until such time as model legislation and/or regulations are adopted and become effective.

1. The regulator should accept Actuarial Opinions only from qualified actuaries. The educational and experience standards established by the American Academy of Actuaries for this purpose offers evidence that an individual is so qualified.

2. The regulator should determine if an opinion is qualified in any respect, or omits items from the outline provided in the Instructions to the Blank. If so, a follow up with the actuary rendering the opinion as to the nature of the qualification or omission is appropriate if the opinion does not provide a satisfactory explanation.

3. The regulator should examine the circumstances where the actuary rendering the opinion differs from the prior actuary, and ascertain the reasons for the change. In some cases the regulator may wish to discuss the change with the current and prior actuaries.

4. The regulator should, if desired, obtain for reviews, documentation supporting the Actuarial Opinion. Except in matters of professional discipline, the regulator's use of these documents should be considered within the department's guidelines for confidential information.

5. The regulator may require that the actuary furnish an Actuarial Report supporting the Actuarial Opinion. The report should conform to the standards of the American Academy of Actuaries with respect to Actuarial Reports (Opinion 3 to the Guides to Professional Conduct). It should document the methodology and approach to assumptions used in making the opinions and, additionally, provide specific details in reference to items in 6 through 10 below if such details are required by the regulator.

6. In the Actuarial Report, the actuary providing the opinion should refer to the NAIC Insurance Regulatory Information System (IRIS) ratios, point out ratio values outside the prior year's range of usual values, and provide explanations for those which are significant.

7. In the Actuarial Report, the actuary providing the opinion should make specific reference to the extent to which the good and sufficient analysis considered all the unmatured obligations of the company, in aggregate, guaranteed under the terms of its policies. (Note: To the extent that the insurer declares guarantees more favorable than those in the policy, such declared guarantees shall be used in the calculation of all the unmatured obligations.)

8. In the Actuarial Report, the actuary providing the opinion should make specific reference as to whether the good and sufficient analysis, with respect to annuities and other products with benefits (guaranteed or non-guaranteed) sensitive to interest rates, considered future insurance and investment cash flows as they would emerge under a reasonable range of future interest rate scenarios, and, if so, what those considerations were.

9. In the Actuarial Report, the actuary providing the opinion should make specific reference as to whether the good and sufficient analysis considered the inter-relationships of assumptions with respect to guaranteed benefit payments, future expenses, policyowner dividends, and post-issue premium or benefit adjustments, especially among persistency, mortality, morbidity, inflation, and interest rates, and, if so, what those consideration were.

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10. In the Actuarial Report, the actuary providing the opinion should document the extent to which the opinion is influenced by a continuing business assumption, and, if the impact is material, comment on the company's plan of operations with regard to this assumption as it affects assumed expenses and interest rates, and future reserve requirements.

11. A review of the documentation obtained in (4) above, undertaken or sponsored by the regulator, should:

    a. Be done by a qualified reviewer;

    b. Emphasize an examination of the appropriateness of the actuary's work process, methodology, and approach to assumptions.

12. If at any time during the review, the regulator requires more information deemed to be material to the development of the opinion, the company would be expected to comply with requests for such information.

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Actuarial Guideline XV

ILLUSTRATIONS GUIDELINE FOR VARIABLE LIFE INSURANCE MODEL REGULATION

Any sales illustration shown or furnished in connection with the sale of variable life insurance must conform with the following requirements except that these requirements only apply to the variable portion of contracts with fixed and variable funding options. Item 9 specifically pertains to variable life insurance contracts offering both fixed and variable funding options.

1. The hypothetical interest rates used to illustrate accumulated policy values must be an annual effective gross rate after brokerage expenses and prior to any deduction for taxes, expenses and contract charges.

2. If illustrations of accumulated policy values are shown then for the highest interest rate used, one illustration must be based solely upon guarantees contained in the policy contract being illustrated. (For example, if the illustration includes the effect of mortality charges and administrative charges which are below the guaranteed maximums for such charges, an illustration must be prepared which involves the effect of the maximum charges.)

3. Except for illustrations contained in the prospectus, the pattern of premium payments used in an illustration should be the initial pattern requested by the proposed policyholder at inception or upon changes in face amount requested by the policyholder.

4. If the illustrated policy contract provides for a variety of investment options, the illustration may either use an asset charge which is reasonably representative or use the asset charge of a particular option. The illustration should clearly identify the asset charge and either label it "hypothetical" or identify the fund.

5. The illustration must disclose the transaction charges which will be levied against the contract because of transactions requested in accordance with rights and privileges specified in the policy contract. Any charge for the exercise of a right or privilege upon which the illustration is based must be reflected in the illustrated values. The nature of any other such charges must be disclosed in a clear statement accompanying such illustrations. (For example, a charge to switch from one investment option or death benefit option to another.)

6. A clear statement must be made following the Table of Illustrated Accumulated Policy Values that use of hypothetical investment results does not in any way represent actual results or suggest that such results will be achieved and must indicate that the policy values which actually arise will differ from those shown whenever the actual investment results differ from the hypothetical rates illustrated. Assumptions upon which illustrations are based must be clearly disclosed.

7. Any sales illustration to a prospective policyholder must reflect the policy being presented accurately. Misleading statements or captions or other misrepresentations are prohibited.

8. The requested sales illustration must be printed clearly and legibly on hard paper copy. An illustration displayed on a computer screen may be used in addition to, but not as a substitute for, hard paper copy.

9. In connection with variable life insurance contracts offering both fixed and variable funding options:

    a. An illustration of the variable funding option must comply with these guidelines;

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b. If an illustration of the fixed funding option is shown, accumulated policy values must be shown on the basis of guaranteed rates. One or more additional rates may also be shown but such rates may not exceed current rates;

c. A summary illustration may be given in which results from comparable illustrated and hypothetical interest rates are combined. Such summary must cross-reference to the accompanying separate illustrations of the fixed and variable funding options.

10. Nothing herein shall prohibit the distribution to the prospective policyholder of illustrations in addition to those required by Article VII of the NAIC Model Variable Life Insurance Regulation provided that, except for Item 3 which shall only apply to required illustrations under Article VII, such additional illustrations comply with the standards set forth herein.

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Actuarial Guideline XVI

CALCULATION OF CRVM RESERVES ON SELECT MORTALITY AND/OR SPLIT INTEREST

Text

When CRVM reserves are being calculated, it is necessary to determine the value of ${}_{19}P_{x+1}$. The Standard Valuation Law permits the use of Select Mortality Factors with the 1980 CSO Table. While the maximum valuation interest rate for any policy is level for all durations, the law permits the use of other interest rates as long as the resulting reserves are not less than those according to the minimum standard. Thus, it is possible to calculate reserves by the CRVM method using split interest rates, i.e., interest rates that are not the same at all durations.

When either Select Mortality Factors or split interest are involved, the "net level annual premium on the nineteen-year premium whole life plan" is the renewal net level premium for a 20-payment life valued on the full preliminary term basis. That is ${}_{19}P_{[x]+1}$ should be used instead of, for example, ${}_{19}P_{[x+1]}$.

Background Information

The Report of the Society of Actuaries Committee on Specifications for Monetary Values - 1980 CSO Tables recommended this approach. This Report was accepted by the Board of Governors of the Society and forwarded to the NAIC early in 1984. This approach is logical because it is consistent with the calculation of the "net level annual premium equal to the present value, at the date of issue, of such benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per annum payable on the first and each subsequent anniversary of such policy on which a premium falls due....." (See Section 4 of the Standard Valuation Law, emphasis added.)

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Actuarial Guideline XVII

CALCULATION OF CRVM RESERVES WHEN DEATH BENEFITS ARE NOT LEVEL

Text

In the definition of the Commissioners' Reserve Valuation Method, the Standard Valuation Law (Section 4) refers to the "net level annual premium on the nineteen-year premium whole life plan for insurance of the same amount...." The law does not define "the same amount" for cases when death benefits are not level. For policies issued after the operative date of Section 5-c of the Standard Nonforfeiture Law for Life Insurance (Section 5-c provides for the use of the 1980 CSO Table, among other things) "the same amount" is to be taken as the renewal nine-year arithmetic average, i.e., the arithmetic average of the death benefit at the beginning of each of policy years 2 through 10, inclusive.

Background Information

The Report of the Society of Actuaries Committee recommended this approach. Walter O. Menge in his paper Commissioners Reserve Valuation Method, RAIA XXXV (see p 277 ff, especially p 283), defined an "equivalent level renewal amount" which has been accepted and still is the appropriate function for policies issued before the operative date of Section 5-c of the Standard Nonforfeiture Law for Life Insurance. The Society Committee indicated that the strongest factor that weighed in its conclusion was the effect on reserves for such plans as jumping juvenile. Menge noted the similarity between his definition of "equivalent level renewal amount" and the definition of "equivalent uniform amount" in Section 5 of the Standard Nonforfeiture Law for Life Insurance. In the same way, the function prescribed above is consistent with the "average amount of insurance" in Section 5-c of the Standard Nonforfeiture Law for Life Insurance. A principal reason for the change in the Standard Nonforfeiture Law was to simplify calculations, and this guideline will also have that result.

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Actuarial Guideline XVIII

CALCULATION OF CRVM RESERVES ON SEMI-CONTINUOUS, FULLY CONTINUOUS OR DISCOUNTED CONTINUOUS BASIS

Text

The Standard Valuation Law uses the "excess of (a) over (b)" in the definition of the modified net premiums in Section 4. If reserves are calculated on a basis other than curtate, i.e., using semi-continuous, fully continuous or discounted continuous functions, the excess of (a) over (b) may be calculated using the same basis (semi-continuous, etc.).

Background Information

The Report of the Society of Actuaries Committee recommended this approach. The excess of (a) over (b) is sometimes referred to as the initial expense allowance. Basing this expense allowance on curtate functions is conservative as this results in the smallest amount of expense allowance. Also, the expense allowance is the same regardless of which type of functions are used. On the other hand, the use of curtate functions when the basic calculation is based on other functions can result in complications in calculation. The difference in the resulting reserves does not justify the additional complication.

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Actuarial Guideline XIX

1980 CSO MORTALITY TABLE WITH TEN-YEAR SELECT MORTALITY FACTORS

Text

The Standard Valuation Law and the Standard Nonforfeiture Law for Life Insurance make reference to the Commissioners' 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors. The Ten-Year Select Mortality Factors referred to are those developed by the Society of Actuaries Special Committee to Recommend New Mortality tables for Valuation (see Report on p. 617ff and table of Ten-Year Select Mortality Factors on p. 669 of TSA XXXIII).

The NAIC model regulation regarding mortality tables independent of sex refers to certain specific tables which are blends of the male and female mortality rates of the 1980 CSO Table and specifies that these tables may be used with or without Ten-Year Select Mortality Factors. The Ten-Year Select Mortality Factors to be used with these blended tables are to be determined by use of the formula in the letter from Robert J. Johansen to Ted Becker reproduced on p. 457 of NAIC Proceedings 1984 Vol. I.

Background Information

The published report of a committee of the Society of Actuaries contains two sets of alternative select mortality factors. While that committee recommended that the alternative factors not be adopted, their publication has caused some confusion.

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Actuarial Guideline XX

JOINT LIFE FUNCTIONS FOR 1980 CSO MORTALITY TABLE

Text

The tables of uniform seniority and the "Ultimate 1xx Tables" in Appendix 5 of the Report of the Society of Actuaries Committee on Specifications for Monetary Values - 1980 CSO Tables are acceptable for use in calculating reserves or nonforfeiture values for joint life policies on the 1980 CSO basis. These tables from Appendix 5 of the report are reproduced on the following pages of this Actuarial Guideline. These tables are numbered A5-1, A5-6 and A5-7 to coincide with the page numbers of those tables in Appendix 5 of the Society Committee report. (These are the only tables considered necessary for the purpose of this guideline.)

Other methods of calculating joint life functions may also be acceptable. In particular, it is acceptable to calculate "exact" joint life functions using published 1980 CSO mortality rates for the actual ages and genders of the lives to be insured.

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1980 CSO and 1980 CET TABLES

A5-1

Tables showing the deduction to be made from the age of the older of two lives in order to obtain the equivalent equal ages. The equivalent equal ages are then used to enter tablesof functions derived from tables based on one male and one female of the same age.

MALE/MALE

Difference in Ages	Deduct from Older Age
0-1 Years	-2
2-3	-1
4-6	0
7-9	1
10-13	2
14-19	3
20-32	4
33-55	5
56 & Over	6

FEMALE/FEMALE

Difference in Ages	Deduct from Older Age
0-1 Years	
2-3	
4-6	
7-9	6
10-13	
14-20	8
21-48	9
49-70	8
71 & Over	7

OLDER MALE/YOUNGER FEMALE

Difference in Ages	Deduct from Older Age
0-1 Years	0
2-4	1
5-8	2
9-14	3
15-27	
28-54	5
55 & Over	6

OLDER FEMALE/YOUNGER MALE

Difference in Ages	Deduct from Older Age
0 Years	0
1-2	1
3-4	2
5-6	3
7-8	4
9-11	5
12-14	6
15-18	7
19-25	8
26-47	9
48-70	8
71 & Over	7

It is not appropriate to apply values from the FEMALE/FEMALE column so that a negative joint equal age results. In such situations equivalent equal age zero should be used.

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1980 CSO AND 1980 CET TABLES

ULTIMATE 1_{XX} TABLES

A5-6

MALE/FEMALE - JOINT EQUAL AGES

Age	1980 CSO ANB	1980 CET ANB	Age	1980 CSO ANB	1980 CET ANB
0	60,560,928	16,765,573,343	50	50,059,381	13,731,016,815
1	60,133,368	16,611,833,035	51	49,476,690	12,558,651,151
2	60,016,709	16,554,688,329	52	48,854,7[illegible]	12,334,020,364
3	59,908,679	16,500,057,858	53	48,189,[illegible]55	12,115,954,884
4	59,802,641	16,446,102,669	54	47,47[illegible]165	11,882,965,072
5	59,699,780	16,393,146,218	55	46,71[illegible]22	11,634,492,272
6	59,600,678	16,341,343,876	56	45,[illegible]94,341	11,370,389,297
7	59,505,913	16,290,849,123	57	45,[illegible]025,102	11,090,791,424
8	59,415,464	16,241,650,759	58	44,105,689	10,796,774,543
9	59,328,717	16,193,575,473	59	43,138,010	10,489,174,436
10	59,243,877	16,146,128,297	60	42,120,816	10,168,205,698
11	59,160,343	16,099,143,064	61	41,050,947	9,833,163,320
12	59,073,969	16,051,489,601	62	39,922,456	9,482,414,384
13	58,981,223	16,002,211,528	63	38,727,178	9,114,117,409
14	58,878,596	15,950,364,3[illegible]	64	37,455,765	8,726,038,290
15	58,763,783	15,8[illegible]5,335,60[illegible]	65	36,104,361	8,317,746,958
16	58,635,678	15,83[illegible]840,77[illegible]	66	34,673,184	7,890,297,942
17	58,494,366	15,774,9[illegible]24	67	33,168,368	7,446,389,780
18	58,341,111	[illegible],709,926,059	68	31,598,177	6,989,702,695
19	58,180,090	[illegible]643,001,774	69	29,974,031	6,524,328,290
20	58,01[illegible]531	[illegible],574,485,426	70	28,301,780	6,052,945,571
21	57,841[illegible]04	[illegible],505,178,968	71	26,582,447	5,577,062,990
22	57,669,027	15,435,715,764	72	24,815,246	5,097,324,032
23	[illegible]497,173	15,366,563,757	73	22,997,777	4,614,505,500
24	57,[illegible]6,406	15,297,875,217	74	21,131,047	4,130,490,018
25	57,[illegible]56,720	15,229,646,694	75	19,226,083	3,649,618,370
26	[illegible]989,251	15,162,179,359	76	17,303,859	3,178,781,104
27	56,822,842	15,095,162,526	77	15,392,302	2,726,027,311
28	56,656,351	15,028,290,956	78	13,522,753	2,299,540,338
29	56,488,648	14,961,264,778	79	11,725,985	1,906,364,931
30	56,318,617	14,893,789,474	80	10,025,717	1,551,018,508
31	56,145,156	14,825,724,856	81	8,438,546	1,235,758,486
32	55,966,614	14,756,488,721	82	6,977,243	961,383,029

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ULTIMATE 1_{XX} TABLES (CONT'D)

Age	1980 CSO ANB	1980 CET ANB	Age	1980 CSO ANB	1980 CET ANB
33	55,783,044	14,686,100,270	83	5,651,637	727,555,449
34	55,592,824	14,614,138,379	84	4,470,897	533,319,971
35	55,393,802	14,540,044,697	85	3,444,826	377,233,215
36	55,185,521	14,463,709,462	86	2,579,176	256,609,122
37	54,964,779	14,384,303,697	87	1,872,714	167,383,564
38	54,728,980	14,301,162,422	88	1,316,256	104,405,498
39	54,476,679	14,213,496,296	89	893,896	62,098,302
40	54,204,296	14,119,829,355	90	585,359	38,106,033
41	53,909,967	14,019,719,765	91	368,642	18,789,100
42	53,590,820	13,911,767,923	92	222,5	9,470,646
43	53,246,767	13,795,743,779	93	128,118	4,461,337
44	52,876,702	13,671,168,213	94	69,80	1,940,503
45	52,480,127	13,537,874,323	95	35,420	760,483
46	52,055,563	13,395,455,885	96	15,202	255,127
47	51,602,680	13,243,953,279	97	6,225	65,264
48	51,120,195	13,083,039,247	98	1,699	9,381
49	50,606,437	12,912,305,585	99	200	200

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ULTIMATE 1_{XX} TABLES

A5-7

MALE/FEMALE - JOINT EQUAL AGES

Age	1980 CSO ALB	1980 CET ALB	Age	1980 CSO ALB	1980 CET ALB
0	60,347,148	16,688,703,189	50	49,768,036	12,634,833,983
1	60,075,038	16,583,260,682	51	49,165,729	12,436,335,758
2	59,962,694	16,527,373,094	52	48,522,312	12,224,987,624
3	59,855,660	16,473,080,264	53	47,833,009	11,999,459,978
4	59,751,210	16,419,624,444	54	47,093,742	11,758,728,672
5	59,650,229	16,367,245,047	55	46,302,832	11,502,440,784
6	59,553,296	16,316,096,500	56	45,459,722	11,230,590,360
7	59,460,688	16,266,249,941	57	44,565,396	10,943,782,984
8	59,372,090	16,217,613,116	58	43,621,850	10,642,974,490
9	59,286,297	16,169,851,885	59	42,629,413	10,328,690,067
10	59,202,110	16,122,635,680	60	41,585,882	10,000,684,509
11	59,117,156	16,075,316,332	61	40,486,702	9,657,788,852
12	59,027,596	16,026,850,564	62	39,324,817	9,298,265,896
13	58,929,910	15,976,287,946	63	38,091,472	8,920,077,850
14	58,821,190	15,922,849,984	64	36,780,063	8,521,892,624
15	58,699,730	15,866,088,188	65	35,388,772	8,104,022,450
16	58,565,022	15,805,879,748	66	33,920,776	7,668,343,861
17	58,417,738	15,742,422,532	67	32,383,272	7,218,046,238
18	58,260,600	15,676,463,916	68	30,786,104	6,757,015,492
19	58,096,310	15,608,243,690	69	29,137,906	6,288,636,930
20	57,926,962	15,539,832,196	70	27,442,114	5,815,004,280
21	57,755,210	15,470,447,365	71	25,698,846	5,337,193,511
22	57,582,100	15,401,139,760	72	23,906,512	4,855,914,766
23	57,410,790	15,332,219,487	73	22,064,412	4,372,497,759
24	57,241,508	15,263,760,956	74	20,178,565	3,890,054,194
25	57,072,986	15,195,913,026	75	18,264,971	3,414,199,737
26	56,903,646	15,128,670,942	76	16,348,080	2,952,404,208
27	56,739,596	15,061,726,741	77	14,457,528	2,512,783,824
28	56,572,500	14,994,777,867	78	12,624,369	2,102,952,634
29	56,403,632	14,927,527,126	79	10,875,851	1,728,691,720
30	56,231,886	14,859,757,165	80	9,232,132	1,393,388,497
31	56,055,885	14,791,106,788	81	7,707,894	1,098,570,758
32	55,874,829	14,721,294,496	82	6,314,440	844,469,239
33	55,687,934	14,650,119,324	83	5,061,267	630,437,710
34	55,493,313	14,577,091,538	84	3,957,862	455,276,593

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ULTIMATE 1_{XX} TABLES (CONT'D)

Age	1980 CSO ALB	1980 CET ALB	Age	1980 CSO ALB	1980 CET ALB
35	55,289,662	14,501,877,080	85	3,012,001	316,921,168
36	55,075,150	14,424,006,580	86	2,225,945	211,996,343
37	54,846,880	14,342,733,060	87	1,594,485	135,894,531
38	54,602,830	14,257,329,359	88	1,105,076	83,251,900
39	54,340,488	14,166,662,826	89	739,623	48,602,168
40	54,057,132	14,069,774,560	90	476,996	2[illegible]47,560
41	53,750,394	13,965,743,844	91	295,586	1[illegible]873
42	53,418,794	13,853,755,851	92	175,324	6,[illegible]65,992
43	53,061,734	13,733,455,996	93	98,960	3[illegible]200,920
44	52,678,414	13,604,521,268	94	52,61[illegible]	1,350,493
45	52,267,845	13,466,665,104	95	25,81[illegible]	507,805
46	51,829,122	13,319,704,582	96	[illegible]214	160,196
47	51,361,438	13,163,496,263	97	3,9[illegible]	37,322
48	50,863,316	12,997,672,416	98	[illegible]950	4,790
49	50,332,909	12,821,661,200	99	[illegible]100	100

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Actuarial Guideline XXI

CALCULATION OF CRVM RESERVES WHEN (B) IS GREATER THAN (A) AND SOME RULES FOR DETERMINATION OF (A)

Text

The Standard Valuation Law used the "excess of (a) over (b)" in the definition of the modified net premiums in Sec. 4. If the excess of (a) over (b) is negative, and the policy is issued on or after January 1, 1987, the excess is to be taken as zero.

The Standard Valuation Law defines (a) as a net level premium, subject to a maximum. The net level premiums for the policy are a uniform percentage of the respective gross premiums such that the present value at issue of the net level premiums payable on and after the first anniversary is equal to the present value at issue of the benefits provided for by the policy after the first anniversary. The net level premium used in determining (a) is the net level premium payable on the first anniversary. The maximum for (a) is the net level premium on the 19-year premium whole life plan for a policy with level premiums issued at an age one year higher than the age at issue of the policy.

The value of (a) is to be calculated as defined in the Standard Valuation Law, even if the resulting reserves are not equal to reserves according to the full preliminary term method.

Background Information

The Report of the Society of Actuaries Committee on Specifications for Monetary Values—1980 CSO Tables recommended that a negative excess of (a) over (b) be taken as zero. Walter O. Menge in his paper Commissioners Reserve Valuation Method, RAIA LXXV (see pp. 260 and 261) pointed out the illogic of a negative excess of (a) over (b). A negative excess, if used, would result in CRVM reserves that are greater than net level premium reserves. This principle has been recognized since Menge wrote his paper, but some actuaries are not aware of the paper.

Defining the net level premiums as being a uniform percentage of the respective gross premiums is consistent with the definition in Menge's paper. Since the denominator of (a) is the present value of an annuity commencing on the first anniversary, the logical value for (a) is the net level premium (as defined) payable on the first anniversary.

In his paper, Menge indicates that CRVM reserves are equal to full preliminary term reserves unless the value of (a) is the maximum defined in the Standard Valuation Law, or unless the excess of (a) over (b) is negative. Menge does not appear to have considered the case where the gross premium for the first policy year does not equal the gross premium for the second policy year. For such policies a literal application of the Standard Valuation Law does not result in full preliminary term reserves.

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Actuarial Guideline XXII

INTERPRETATION REGARDING NONFORFEITURE VALUES FOR POLICIES WITH INDETERMINATE PREMIUMS

Text

Indeterminate premium policies provide that premiums after issue will be determined by the insurer based on then current assumptions as to future experience. The policies also provide a schedule of maximum premiums which the premiums actually charged will not exceed.

The minimum nonforfeiture values for an indeterminate premium policy are the greater of those assuming that the gross premiums for the policy are (i) those according to the schedule of gross premiums based on current assumptions at issue and illustrated to prospective policyholders, or (ii) those according to the schedule of maximum gross premiums included in the policy:

Background Information

Indeterminate premium policies are a fairly recent development in life insurance. They can serve a legitimate function by enabling a nonparticipating policy to include a safety margin that need not be called upon unless it is needed. Indeterminate premiums are sometimes used to avoid deficiency reserve requirements. In general, regulators have not objected to this.

Section 6 of the Standard Nonforfeiture Law for Life Insurance refers to "any plan of life insurance which provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience." This is a direct reference to the types of life insurance policies commonly known as indeterminate premium plans (see "Detailed Analysis of Recommended Changes in the Standard Valuation Law and the Standard Nonforfeiture Law for Life Insurance; NAIC Proceedings - 1981 Vol. II, p. 831). The Standard Nonforfeiture Law for Life Insurance provides that minimum nonforfeiture values for such policies are to be computed by a method consistent with the principles of the Law as determined by regulations promulgated by the commissioner.

Section 5 and Section 5-c of the Standard Nonforfeiture Law for Life Insurance each provide that "the adjusted premiums for any policy shall be calculated on an annual basis and shall be....(a) uniform percentage of the respective premiums specified in the policy for each policy year..." Indeterminate premium policies provide for two amounts of premiums for each year: the actual premium to be charged and the maximum amount of the actual premium. This raises the question of which premium is to be used in setting adjusted premiums as a uniform percentage of the gross premiums.

The maximum premiums have the advantage that they are known at the time the policy is issued. However, use of maximum premiums to determine minimum values can lead to manipulation. A level premium whole life policy has a readily determined set of minimum values in accordance with the Standard Nonforfeiture Law for Life Insurance. If the policy has indeterminate premiums and the premiums illustrated to the customer (with proper disclosure of their indeterminate nature) are level for life, there should be no change in the minimum values. If the minimum values were determined by reference to the maximum premiums and not to the schedule of premiums on the current assumptions, introduction of maximum premiums that increase by duration would result in lower minimum values.

This guideline was written with policies other than universal life insurance in mind. However, it is possible to design a fixed premium universal life insurance policy to which this guideline would be applicable.

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Actuarial Guideline XXIII

GUIDELINE CONCERNING VARIABLE LIFE INSURANCE SEPARATE ACCOUNT INVESTMENTS

A variable life insurance separate account shall be deemed to have sufficient net investment income and readily marketable assets to meet anticipated obligations under policies funded by the account, as required by [statutory reference for state], if, and only if, it can be demonstrated to the satisfaction of the Commissioner that the sum of the market value of readily marketable assets in the account at the date of valuation, plus the anticipated net investment income for the calendar year following the date of valuation exceeds by at least 15% the anticipated death benefits, surrenders, withdrawals and other such obligations payable from current account values during the same period. For the purposes of this demonstration, readily marketable assets means cash or those investments which have readily ascertainable market value and which can be marketed before the close of the next business day; net investment income excludes capital gains or losses; and the value of the anticipated death benefits, surrenders, withdrawals and other such obligations payable during the calendar year following the date of the valuation shall not be estimated at less than 10% of the market value of the account assets at the date of valuation.

If a variable life insurance separate account is divided into separate series, portfolios or other investment subdivisions, each series, portfolio or investment subdivision shall comply with this subsection.

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Actuarial Guideline XXIV

GUIDELINES FOR VARIABLE LIFE NONFORFEITURE VALUES

Minimum cash surrender values for variable life insurance policies shall be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. The methods pertain to a basic policy and any benefits and riders for which premiums are not paid separately.

Minimum cash surrender values for variable life polices may be determined using option B (Retrospective Method), C (Prospective Method), or D (Maximum Charge Method).

A. Definitions

(1) "Valuation Rate" as used in this guideline means the higher of the Assumed Investment Rate (AIR) or guaranteed interest rate included in the policy, if any, otherwise the highest valuation interest rate allowed under the Standard Nonforfeiture Law.

(2) "Net Cash Surrender Value" means the maximum amount payable to the policyowner upon surrender.

(3) "Cash Surrender Value" means the Net Cash Surrender Value plus any amounts outstanding as policy loans.

(4) "Policy Value" means the amount to which separately identified interest credits and or investment return and mortality, expense, or other charges are made under a variable life insurance policy.

(5) "Accumulation Rate" means the net investment return and/or any interest credits applied towards the policy value.

B. Retrospective Method

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a valuation date shall be equal to the value using the Accumulation Rate through that date of the premiums paid minus the accumulation through that date of (i) the benefit charges, (ii) the averaged administrative expense charges for the first policy year and any insurance-increase years, (iii) actual administrative expense charges for other years, (iv) initial and additional acquisition expense charges not exceeding the initial or additional expense allowances, respectively, (v) any service charges actually made (excluding charges for cash surrender or election of a paid-up nonforfeiture benefit) and (vi) any deductions made for partial withdrawals; all accumulations being at the Accumulation Rate at which changes in policy values have been made unconditionally to the policy (or has been made conditionally, but for which the conditions have since been met), and minus any unamortized unused initial and additional expense allowance.

Accumulations for the premiums and for all charges referred to in items (i)-(vi) above shall be based on the Accumulation Rate for the applicable account(s) from and to such dates as are consistent with the manner in which such Accumulation Rate is credited in determining the policy value.

The benefit charges shall include the charges made for mortality and any charges made for riders or supplementary benefits for which premiums are not paid separately. If benefit charges are substantially level by duration and develop low or no cash values, then the Commissioner shall have the right to require higher cash values unless the insurer provides adequate justification that the cash values are appropriate in relation to the policy's other characteristics.

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The administrative expense charges shall include charges per premium payment, charges per dollar of premium paid, periodic charges per thousand dollars of insurance, periodic per policy charges, and any other charges permitted by the policy to be imposed without regard to the policyowner's request for services. The averaged administrative expense charges for any year shall be those which would have been imposed in the year if the charge rate or rates for each transaction or period within the year had been equal to the arithmetic average of the corresponding charge rates which the policy states will be imposed in policy years through twenty in determining the policy value.

The initial acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in the first policy year over the averaged administrative expense charges for that year. Additional acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in an insurance-increase year over the averaged administrative expense charges for that year. An insurance-increase year shall be the year beginning on the date of increase in the amount of insurance by policyowner request (or by the terms of the policy).

Service charges shall include charges permitted by the policy to be imposed as a result of a policyowner's request for a service by the insurer (such as the furnishing of future benefit illustrations) or of special transactions.

The initial expense allowance shall be the allowance provided by Items (ii), (iii), (iv) of Section 5, or by Items (ii) and (iii) of Section 5c(1), as applicable, of the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, for a fixed premium, fixed benefit endowment policy with a face amount equal to the initial face amount of the variable life insurance policy, with level premiums paid annually until the highest attained age at which a premium may be paid under the variable life insurance policy, and maturing on the latest date permitted under the policy, if any, otherwise at the highest age in the valuation mortality table. The unused initial expense allowance shall be the excess, if any, of the initial expense allowance over the initial acquisition expense charges as defined above.

If the amount of insurance is subsequently increased upon request of the policyowner (or by the terms of the policy), an additional expense allowance and an unused additional expense allowance shall be determined on a basis consistent with the above and with Section 5c(5) of the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, using the face amount and the latest maturity date permitted at that time under the policy.

The unamortized unused initial expense allowance during the policy year beginning on the policy anniversary at age x + t (where "x" is the issue age) shall be the unused initial expense allowance multiplied by $\ddot{a}_{x+t}/\ddot{a}_x$ where $\ddot{a}_{x+t}$ and $\ddot{a}_x$ are present value of an annuity of one per year payable on policy anniversaries beginning at ages x + t and x, respectively, and continuing until the highest attained age at which a premium may be paid under the policy, both on the morality guaranteed in the policy and the Valuation Rate for the policy. An unamortized unused additional expense allowance shall be the unused additional expense allowance multiplied by a similar ratio of annuities, with $\ddot{a}_x$ replaced by an annuity beginning on the date as of which the additional expense allowance was determined.

(Note: The drafters chose a whole life initial expense allowance for several reasons. Variable life insurance is generally considered a permanent life insurance plan and most companies encourage a premium level which will provide lifetime insurance protection. Every variable life insurance policy of which the drafters are aware has a "net level premium" that could be computed which would guarantee permanent protection using some suitable interest assumption. As a result, it is expected that most variable life insurance policies will be sold as permanent plans.

Traditional whole life insurance, which is accorded a permanent plan expense allowance by the Standard Nonforfeiture Law (SNFL), is much more flexible than is often realized. Premiums may be stopped with term coverage resulting, policy loans can result in "stop and go" premiums, or a vanishing premium arrangement can be effected, all without the permanent plan expense allowance being affected. The SNFL

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does not require cash values for many forms of term insurance. All other permanent plans develop an expense allowance greater than that for whole life insurance under the SNFL.

The alternative of basing the initial expense allowance on a policyowner's "planned premium" was considered but rejected as artificial and subject to substantial manipulation by agents and/or insurers.)

C. Prospective Method

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a date as of which interest is credited to the policy shall be equal to [(1) - (2) - (3) - (4)], where:

(1) is the present value of all future benefits;

(2) is the present value of future adjusted premiums. The adjusted premiums are calculated as described in Sections 5 and 5a or in Section 5c(1), as applicable, of the Standard Nonforfeiture Law for Life Insurance, as amended in 1980. If Section 5c(1) is applicable, the nonforfeiture net level premium is equal to the quantity PVFB/$\ddot{a}_X$, where PVFB is the present value of all benefits at issue assuming future premiums are paid by the policyowner and all guarantees contained in the policy or declared by the insurer, and using the Valuation Rate.

$\ddot{a}_X$ is the present value of an annuity of one per year payable on policy anniversaries beginning at age x and continuing until the highest attained age at which a premium may be paid under the policy.

(3) is the present value of any quantities analogous to the nonforfeiture net level premium which arise because of guarantees declared by the insurer after the issue date of the policy. $\ddot{a}_X$ shall be replaced by an annuity beginning on the date as of which the declaration became effective and payable until the end of the period covered by the declaration.

(4) is the sum of any quantities analogous to (2) which arise because of structural changes in the policy.

(Note: Structural changes are those changes which are separate from the automatic workings of the policy. Such changes usually would be initiated by the policyowner and include changes in the guaranteed benefits, changes in latest maturity date, or changes in allowable premium payment period.)

Future benefits are determined by (1) projecting the policy value, taking into account future premiums, if any, and using the guaranteed interest rate, if any; otherwise, the lesser of the AIR, if any, or the highest state approved nonforfeiture interest rate, and using the mortality, expense deductions, etc. contained in the policy or declared by the insurer; and (2) taking into account any benefits guaranteed in the policy or by declaration which do not depend on the policy value.

All present values shall be determined using (i) an interest rate (or rates) specified by the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, for policies issued in the same year and (ii) the mortality rates specified by the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, for policies issued in the same year or contained in such other table as may be approved by the Commissioner for this purpose.

(Note: The types of quantities included in (3) are increased current interest rate credits guaranteed for a future period, decreased current mortality rate charges guaranteed for a future period, or decreased current expense charges guaranteed for a future period.)

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D. Maximum Charge Method

(1) Definitions: Wherever used in this Section, the terms have the respective meanings set forth or indicated in this paragraph.

(a) Policy Value is equal to gross premiums paid (excluding separate identified premiums for riders or supplementary benefits which are not credited to policy value) plus net investment income (which may be positive or negative and may vary based on policy loans) less the following as specified in the policy: (i) administrative charges (which may be taken in part from premiums paid and in part from policy value), (ii) acquisition and other charges, (iii) deferred acquisition and other charges, (iv) benefit charges, (v) service charges, (vi) partial withdrawals, and (vii) partial surrender charges.

(b) Benefit Charges made to the Policy Value are mortality charges made for life insurance on the insured person or persons and any charges made for riders and supplementary benefits.

(c) Service Charges made to the Policy Value are charges for transactional costs such as partial withdrawals, reallocations of policy values and benefit illustrations. Transactional charges shall not be assessed unless specifically permitted by law or regulation for transactions made under mandatory policy provisions.

(d) Administrative Charges is a per policy charge made regularly to the Policy Value (or deducted from premiums of scheduled premium policies) for the cost of administration. This charge may not exceed $5.00 per month in 1986. In subsequent years the limit for any new or in force policy shall be the product of $5.00 and the ratio (not to exceed 2.00) of (1) the Consumer Price Index (for all urban households) for the September preceding the year for which the determination is being made to (2) the Consumer Price Index for September 1986. The Commissioner may allow a higher charge upon an insurer demonstrating a justification.

(e) Acquisition and Other Charges are deducted from gross premiums before they are credited to Policy Value and/or made to the Policy Value. They may be expressed as a percentage of premium or a dollar amount per $1,000 of insurance or a dollar amount per premium payment or a per policy charge (other than the Administrative Charge). They do not include charges made as a reduction in investment return. These charges may vary by premium size, policy size and by policy year.

(f) Excess First Year Acquisition and Other Charges shall be the maximum excess of (A) over (B) based on the assumption that any premium (other than a single premium) payable in the first policy year is also payable during the entire premium paying period. (A) is the Acquisition and Other Charge made in the first policy year and (B) is the arithmetic average of the corresponding charges which the policy states would be made in policy years two through twenty.

(g) Excess Acquisition and Other Charges for a Face Amount Increase shall be the maximum excess of (A) over (B) based on the assumption that the net level whole life annual premium for the increase (as defined in (j) below) applies throughout the remaining premium paying period. (A) is the Acquisition and Other Charge for the increase, and (B) is the arithmetic average of the

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corresponding charges which the policy states would be made in the nineteen policy years following the increase.

(h) Net Investment Return is the actual amount credited to Policy Value net of investment expenses and/or other charges made as a reduction in investment return.

(i) The net level whole life annual premium at issue is based on the assumption of level insurance and level annual premium for life, the mortality table rate used to calculate the maximum mortality charges and an interest rate based on the higher of 4% or that specified in the policy.

(j) The net level whole life annual premium for an increase in the face amount of insurance shall be determined as of the date of the increase as though such increase were a separate policy under (i) above. Only increases in the face amount requested by the policyowner and increases in the face amount pursuant to the terms of the policy (e.g. an option to purchase or a cost of living increase) shall give rise to such a premium and the associated Excess Acquisition and Other Charges for a Face Amount Increase. Increases for this purpose shall not include increases in face amount resulting from a change in the death benefit option or changes in death benefit pursuant to policy terms that do not affect the face amount. Increases for this purpose shall be reduced by the amounts of any earlier decrease by reason of a partial withdrawal, but not a decrease resulting from a change in the death benefit option.

(k) Surrender Charge is a deferred charge made to the Policy Value in the event of a full or partial surrender of the policy, reduction in the face amount of insurance or premium, or a lapse.

(l) Cash Surrender Value is the Policy Value less any Surrender Charge, before reduction for outstanding loans or other amounts due under the policy.

(m) Deferred Acquisition and Other Charges are Acquisition and Other Charges deducted from the Policy Value after the first policy year.

(2) Cash Surrender Values determined in accordance with this subparagraph shall meet minimum requirements.

(a) If Acquisition and Other Charges do not exceed the sum of:

(1) 90% of premiums received up to the net level whole life annual premium at issue (regardless of when received).

(2) 10% of all other premiums received.

(3) 90% of the net level whole life annual premium for increases in the face amount of insurance as defined in 1(j).

(4) $10 per $1,000 of initial face amount in the first policy year.

(5) $1 per $1,000 of face amount in subsequent policy years.

(6) $10 per $1,000 of any increase in the face amount of insurance other than an increase resulting from a change in the death benefit option. Increases

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up to the amount of earlier decreases are included here but not in (3) above.

(7) $200 per policy in the first year.

(b) A surrender charge may be established provided that the initial surrender charge together with the actual Acquisition and Other Charges made in the first policy year (and on premiums up to the net level whole life annual premium if received after the first year) do not exceed the sum of (1), (2) in the first year, (4) and (7) in (a) above. Additional surrender charges may be established after issue in connection with an increase in face amount provided that any such additional surrender charge and any Acquisition and Other Charges made in connection with such increase do not exceed the sum of (3) and (6) in (a) above.

(c) A Deferred Acquisition and Other Charge may be charged against the Policy Value in any policy year after the first, such that the total of all such charges imposed to date plus the surrender charge for that year does not exceed the maximum initial surrender charge. The Deferred Acquisition and Other Charges in any one year may not exceed the maximum allowable surrender charge for that year. Similar Deferred Acquisition and Other Charges may be imposed with respect to an increase in face amount.

(d) The maximum allowable surrender charge for any year shall be the maximum initial surrender charge multiplied by a_{x+t}/a_x where "x" is the issue age and "t" is the number of years since issue. Similar maximums shall be determined with respect to any additional surrender charges, with x and t based on the date of increase.

(Note: The minimum cash value methods B, C, or D are not intended to prohibit the current practice of allowing the imposition of additional surrender charges defined as follows. In the case of combination general account and separate account variable life products, additions or amounts derived from more favorable interest, mortality, and expense than those guaranteed in the policy on the general account fund and credited within 12 months prior to surrender may be subject to forfeiture upon surrender.)

E. Minimum Paid-Up Nonforfeiture Benefits

If a variable life insurance policy provides for the optional election of a paid-up nonforfeiture benefit, it shall be such that its present value shall be at least equal to the cash surrender value provided by the policy on the effective date of the election. The present value shall be based on mortality and interest standards at least as favorable to the policyowner as (1) the mortality and interest basis, if any, specified in the policy for determining the policy value, or (2) the mortality and interest standards permitted for paid-up nonforfeiture benefits by the Standard Nonforfeiture Law for Life Insurance, as amended in 1980. In lieu of the paid-up nonforfeiture benefit, the insurer may substitute, upon proper request not later than sixty days after the date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture benefit which provides a greater amount or longer period of death benefits, or, if applicable, a greater amount or earlier payment of endowment benefits.

(Note: It is possible that policies will have secondary guarantees. Such guarantees should be taken into consideration when computing minimum paid-up nonforfeiture benefits.)

Ever since the adoption of the original Standard Nonforfeiture Law (SNFL) in 1942, provision has been made for nonforfeiture calculations on the basis of substandard mortality. (See Sections 5.5a. and 5c, Paragraph 8(e) of SNFL.)

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While this provision has been used infrequently in the past, it is anticipated the substandard mortality will be more frequently utilized in variable life insurance, given its flexible nature, to reflect the mortality classification assigned to the policy by the insurer.

A charge may be made at the surrender of the policy provided that the result after the deduction of the charge is not less than the minimum cash surrender value required by this guideline.)

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Actuarial Guideline XXV

CALCULATION OF MINIMUM RESERVES AND MINIMUM NONFORFEITURE VALUES FOR POLICIES WITH GUARANTEED INCREASING DEATH BENEFITS BASED ON AN INDEX

A. Valuation - Text

For a policy where premiums are fixed in amount at issue which provides for whole life insurance with the amount of death benefit adjusted periodically with the Consumer Price Index or another cost of living index, the value of the minimum reserve at any time shall be based on the maximum valuation interest rate for the year of issue and an acceptable mortality table for life insurance statutory reserves and based on the death benefit and premium pattern adjusted as provided in the policy by reasonable annual increases based on the index. The present value of future benefits component shall be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. If the policy provides for future premiums and such premiums are also adjusted periodically with the Consumer Price Index or another cost of living index, the present value of future premiums component shall likewise be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. The assumption as to what is a reasonable annual increase in death benefits based on the index must not be less than the maximum valuation interest rate for the year of issue less:

1. 2.0% If the annual increase is limited to an annual and non-cumulative maximum of 0% through 5.0%

2. 1.5% If the annual increase is limited to an annual and cumulative maximum of 0% through 5.0%.

3. 1.5% If the annual increase is limited to an annual and non-cumulative maximum of 5.01% through 10.0%.

4. 1.25% If the annual increase is limited to an annual and cumulative maximum of 5.01% through 10.0%.

5. 1.0% For all other plans.

The term “annual and non-cumulative maximum” refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index without carry forward of excess index increases.

The term “annual and cumulative maximum” refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index with carry forward of excess index increases.

In no event shall the assumption as to an annual increase based on the index be less than 1.0%.

This guideline for valuation shall be effective immediately for policies issued on or after January 1, 1991.

B. Nonforfeiture – Text

The threshold amount shall be $10,000 until December 31, 2009. For years beginning after December 31, 2009, the threshold amount for a calendar year shall be the product of $10,000 and the ratio of 1) the index for June of the prior year to 2) 136.0 (the index as of June 30, 1991), rounded to the nearest $25. If this calculation would result in an increase in the threshold amount of less than $500, the unadjusted

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threshold amount from the prior year shall continue in effect for the next calendar year. In no calendar year shall the increase in threshold amount exceed 5% of the prior calendar year threshold amount.

The index used to determine the threshold amount for years beginning after December 31, 2009, shall be the Consumer Price Index for All Urban Consumers (CPI-U) as of June 30 of that year. If this index is no longer available, another index which, in the actuary's opinion, reflects the change in general consumer prices for the year should be substituted.

I. FOR POLICIES WHERE ANY DEATH BENEFIT FOR ANY POLICY YEAR WOULD EXCEED THE THRESHOLD AMOUNT EVEN IN ABSENCE OF ANY ANNUAL INCREASES BASED ON THE INDEX

For a policy where premiums are fixed in amount at issue which provides for whole life insurance with the amount of death benefit adjusted periodically with the Consumer Price Index or another cost of living index, the value of the minimum nonforfeiture benefit at any time shall be based on the maximum nonforfeiture interest rate for the year of issue and an acceptable mortality table for life insurance nonforfeiture and based on the death benefit and premium pattern adjusted as provided in the policy by reasonable annual increases based on the index. The present value of future benefits component shall be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. If the policy provides for future premiums and such premiums are also adjusted periodically with the Consumer Price Index or another cost of living index, the present value of future premiums component shall likewise be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. The assumption as to what is a reasonable annual increase in death benefits based on the index must not be less than the maximum valuation interest rate for the year of issue less:

1. 2.0% If the annual increase is limited to an annual and non-cumulative maximum of 0% through 5.0%.

2. 1.5% If the annual increase is limited to an annual and cumulative maximum of 0% through 5.0%.

3. 1.5% If the annual increase is limited to an annual and non-cumulative maximum of 5.01% through 10.0%.

4. 1.25% If the annual increase is limited to an annual and cumulative maximum of 5.01% through 10.0%.

5. 1.0% For all other plans.

The term "annual and non-cumulative maximum" refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index without carry forward of excess index increases.

The term "annual and cumulative maximum" refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index with carry forward of excess index increases.

In no event shall the assumption as to an annual increase based on the index be less than 1.0%.

II. FOR POLICIES WHERE ANY DEATH BENEFIT FOR ANY POLICY YEAR WOULD NOT EXCEED THE THRESHOLD AMOUNT IN ABSENCE OF ANY ANNUAL INCREASES BASED ON THE INDEX

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For a policy where premiums are fixed in amount at issue which provides for whole life insurance with the amount of death benefit adjusted periodically with the Consumer Price Index or another cost of living index, the unadjusted value of the minimum nonforfeiture benefit at any time shall be based on a level death benefit, an acceptable mortality table for life insurance nonforfeiture and a nonforfeiture interest rate equal to:

1. 4.5% If the annual increase based on the index is limited to a maximum of 0% through 5.0%.

2. 4.25% If the annual increase based on the index is limited to a maximum of 5.01% through 10.0%.

3. 4.0% For all other plans.

The present value of future benefits component shall be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. If the policy provides for future premiums and such premiums are also adjusted periodically with the Consumer Price Index or another cost of living index, the present value of future premiums component shall likewise be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit.

For purposes of this guideline multiple policies on a single life shall be aggregated and only those policies aggregating not more than $10,000 (or the threshold amount[1] after December 31, 2009), shall be considered under B.II.

This guideline for nonforfeiture shall be effective immediately for policies issued on or after January 1, 1991.

BACKGROUND

A number of companies are marketing individual life insurance policies with guaranteed increasing death benefits tied in to a consumer price index or another cost of living index and are for low initial amounts of insurance sold through funeral directors to provide for burial expenses. Some of the policies provide for graded death benefits such as the return of premium with or without interest for the early policy years or for a fixed scheduled increase in death benefits prior to the operation of the index. In some cases there is a maximum on the increase for any year. The vast majority of such policies are single premium policies but some are annual premium policies (generally limited payment). The annual premium may or may not be subject to adjustment with the index.

Since the changes in the index are not known at issue, but from past experience, increases within a given range can be expected with a high probability, it is necessary to assume some increases and then to continually adjust the present value of future benefits component and, if appropriate, the present value of future premiums component in the reserve and nonforfeiture calculation.

Theoretically the same assumed increases in the death benefits should be used for both valuation and nonforfeiture. This guideline so provides for policies where the amount of death benefit in any given policy year would exceed $10,000 (or the threshold amount[1] after December 31, 2009), even if there were no increases based on the index. For practical purposes this may mean that such policies are not marketable for higher amounts as it is most likely that such policies will not qualify under the IRS Section

[1] In 2010, the actuarial guideline was modified to substitute a threshold amount for 10,000, such threshold being increased by the change in the CPI-U, the CPI for All Urban Consumers.

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7702. The cash value accumulation test to qualify thereunder requires a minimum interest rate of 4% and an assumed level amount of death benefits.

In the case of policies for an initial amount of insurance of $5,000 or less, the IRS rules provide an exception to the prohibition of assuming increasing death benefits. However, since many of the policies for very low amounts of initial face amount of insurance would require relatively high expenses if underwritten, many of the policies are issued with simplified underwriting or on a guaranteed issue basis with lower amounts of death benefits in the early policy years, some of the resulting annual increases are such as would disqualify many of the policies for the exception. Therefore it is recommended that policies for low amounts of insurance be allowed to qualify under the cash value accumulation test by permitting the nonforfeiture values to be based on a level death benefit and 4% or higher interest and requiring such values to be updated as increases based on the index take place. The amount in this guideline is set at $10,000 (or the threshold amount[1] after December 31, 2009), to allow for future adjustments and for different patterns of benefits for low amounts.

For single premium policies, the value of nonforfeiture benefits based on a level death benefit and a net assumed nonforfeiture interest rate equal to the maximum nonforfeiture interest rate less an assumed increase based on the index and such factors then adjusted by the projected increases will approximate factors based on assumed increases and the maximum nonforfeiture interest rate. However, the net interest rate is likely to be less than 4%. Thus the procedure of assuming a level death benefit and a net assumed rate of not less than 4% for policies of low amounts of insurance is apt to produce lower cash values than the procedure for large amounts of insurance. Such lower values can be justified based upon the fact that the highly specialized market is prearranged funeral expenses for very small amounts of insurance per policy.

To emphasize the qualification with the IRS rules for the very low amounts of insurance, the nonforfeiture guideline for small amount policies is stated in terms of the net rate, a level death benefit and continual adjustment.

For solvency purposes, reserves should be conservative. The same rules apply for reserve regardless of the size of the policy. That is, lower reserves are not permitted for policies with very low amounts of insurance per policy.

Paragraph 5c(3) of the Model Standard Nonforfeiture Law states that unscheduled changes do not need to be taken into account until the time of the change. The changes guaranteed according to an index are a hybrid, i.e. the changes are scheduled but the amount of the change is not known until the index is determined. Thus the changes must be recognized at issue. This guideline is a hybrid with increases assumed at issue either explicitly or implicitly but with further adjustments made at the time the increase based on the index is determined.

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Actuarial Guideline XXVI

ELECTION OF OPERATIVE DATES UNDER STANDARD VALUATION LAW AND STANDARD NONFORFEITURE LAW

June 3, 1989

Preamble

The model Standard Nonforfeiture Law for Life Insurance contains Section 5-C, which defines new mortality and interest rate components to be used as the minimum standard for nonforfeiture values for life insurance policies. The Commissioners 1980 Standard Ordinary Table, or that table with Ten-Year Select Factors, is identified in Section 5-C as the applicable mortality table component for ordinary life insurance policies (although there is a provision for other alternate mortality tables to be permitted by regulation). Section 5-C also incorporates "dynamic" interest rates, as the applicable interest rate component. In addition, Section 5-C contains a new and different formula to be used in computing the adjusted premiums that define minimum nonforfeiture values.

Section 5-C contains a mandatory operative date, but there is also language permitting companies to elect an early operative date under certain conditions.

The model Standard Valuation law contains a cross reference to operative date for Section 5-C of the Standard Nonforfeiture Law for Life Insurance. After such operative date, there are mortality and interest rate components defined for use as the minimum standard for computing reserves. The Commissioners 1980 Standard Ordinary Table, or that table with Ten-Year Select Factors, is identified as the applicable mortality table component for ordinary life insurance policies (although there is a provision for other alternate mortality tables to be permitted by regulation). "Dynamic" interest rates determine the applicable interest rate component, but a lower maximum interest rate is defined for reserves than for nonforfeiture values.

Generally, the applicable mortality rates are lower and the applicable interest rates higher after the operative date. Thus, the reserves defined under the minimum standard would be lower for policies issued on or after the operative date.

Text

Under no circumstances can an insurance company elect an operative date for the purpose of Section 5-C of the Standard Nonforfeiture Law for Life Insurance, if such operative date would be in a calendar year prior to the calendar year in which that company furnished written notice of election of an operative date under that law.

Background Material

The purpose of this actuarial guideline is to ensure consistency and provide guidance in the election of this operative date.

Historically, insurance companies have been allowed to elect early operative dates so as to pass along the benefits of improved mortality rates and current interest rates to policyholders who purchase new life insurance policies. These new policies would typically have lower nonforfeiture values and would require lower reserves, and net premiums would be lower also. The expectation is that the lower net premiums might allow the company to reconsider its gross premium rates for these new policies issued after the operative date, and in many cases to lower the new gross premium rates.

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A second reason for allowing the election of an early operative date would be to allow insurance companies and state insurance departments more time to prepare and review new life insurance policies, which are to be introduced into them marketplace. If every life insurance policy had to be changed over on the same mandatory operative date, it would be a great burden on the resources of all the parties involved.

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Actuarial Guideline XXVII

ACCELERATED BENEFITS

PURPOSE

This guideline is designed to cover the actuarial aspects of accelerated benefits. Three general categories of accelerated benefits are covered:

I) non-discounted acceleration of benefits

II) actuarially discounted acceleration of benefits

III) interest accrual approach to financing acceleration of benefits

In addition, there is a separate section to cover the special considerations for a policy lien approach, which is Section IV.

General considerations which apply to any method of determining accelerated benefits are given in Section V.

I. NON-DISCOUNTED ACCELERATION OF BENEFITS

A. Description

The type of plans considered in this subsection are those which provide for a defined event triggering one time acceleration of some or all of the death benefit of the base contract or rider, in such a way that every dollar of acceleration has a non-discounted matching reduction in the amount payable on death. These plans have been available in four forms, via

1. A contract integrating the acceleration feature with other, more traditional, features;

2. A rider attached to a regular contract at time of issue, to provide acceleration;

3. A rider, as in (2), but which may be attached to inforce contracts of the same company, or

4. A policy acting similar to the rider in (3) above, but for which the acceleration is applicable to inforce contract of other companies.

B. Reserves

1. Reserving Approach

Payment of benefits earlier than death itself is an early payment rather than a different payment. The basic reserve structure and requirements for regular life insurance need not be disturbed. Therefore, the CRVM methodology is acceptable, as is any other reserving methodology allowable for life insurance when determining the reserves needed for policies with an accelerated benefit or when determining the reserves for the accelerated benefit by itself.

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2. General Consideration

A reserve formula should consider all relevant factors.

Approximations to develop a single decrement table which utilize all relevant factors except for voluntary termination rates are acceptable for policies and riders subject to this subsection provided it can be demonstrated that the approximations used produce essentially similar reserves, conservative reserves, or immaterial reserves. The calculations should take into account the reduction in life insurance benefits due to prior acceleration. However, in no event shall the reserves for the accelerated benefit and the life insurance benefit when taken together be less than the reserves for the life insurance benefit assuming no acceleration feature prior to payment of any accelerated benefits.

In the development and calculation of reserves for policies and riders subject to this subsection, due regard shall be given to the applicable policy provisions, marketing methods, administrative procedures and all other considerations which have an impact on projected claims costs, including, but not limited to the following:

a. Definition of acceleration events,

b. Premium waiver provision,

c. Marketing method,

d. Underwriting procedures,

e. Delay in eligibility for benefit,

f. Maximum benefit,

g. Optional feature of benefit, and/or

h. Guaranteed insurability options.

II. ACTUARIALLY DISCOUNTED ACCELERATION OF BENEFIT

A. Description

The products that are allowable under this type of approach generally provide for an acceleration of the death benefit payable under a life insurance policy, with an appropriate actuarial adjustment in the amount of money paid to the policyholder that represents the amount of money foregone by the Company by paying out the death benefit early. These products have no additional premium payable. This product can be made available at issue of the contract or after issue of the contract. It can either be a separate rider or part of the integrated policy. The interest rate or interest rate methodology used for discounting must be specified in the contract or rider or in the actuarial memorandum.

B. Reserves

The application of standard valuation law and CRVM reserves is appropriate for these policies. No additional reserves need be held as long as the actuary is convinced that the method used to discount the death benefit reflects sound actuarial principles.

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If the actuary is convinced that the discounting procedure does not appropriately reflect these conditions, he or she should determine a reserve such that reserves are adequate for the life insurance benefits based on aggregates. There is nothing in this benefit design that changes that equation.

III. INTEREST ACCRUAL APPROACH TO FINANCING ACCELERATION OF BENEFITS

A. Description

Under this approach, the insurer accrues an interest charge on the accelerated benefit to account for lost investment income from the date of acceleration to the date of death. The interest may be accrued until death or may be required to be paid in cash periodically, or may be offset against the policy's remaining death benefit.

1. Alternative methods of including an interest accrual option:

   a. A benefit of this type may be provided either as an integral part of a life insurance policy or as a rider to a life insurance policy.

   b. If offered as a rider to a life insurance policy, such rider may be attached to either a new policy or to an existing policy.

2. Alternative Benefit Designs using this option: The rider or policy form should specify whether interest accruing on prior accelerated benefit payment needs to be paid in cash or whether additional accelerated benefit payments will be made to cover such interest accruals as they become due. Either approach is equally acceptable.

B. Interest Accrual Rate

1. The rider or policy form or the actuarial memorandum should specify the method used to determine the rate(s) of interest to be charged.

2. The specification of the method should be clear and unambiguous.

3. The method used for determining the interest rate should be included in the Actuarial Memorandum.

C. Reserves

1. Prior to the occurrence of an event qualifying the policy for accelerated benefits, minimum statutory reserves for policies containing interest accrual provisions are the same as for policies with identical death benefits that do not contain interest accrued lien provisions, provided that the method of determining the interest rate to be charged, as specified in the rider or policy provisions or actuarial memorandum, results in an interest rate at least equal to the valuation interest rate applicable to the policy. If such is not the case, an extra reserve may be necessary on such policies, if it is determined that the aggregate reserves are not good and sufficient.

2. Following the occurrence of a qualifying event, accrued interest is an asset of the company for statutory reporting purposes. However, the valuation actuary should make certain that reserves in the aggregate are adequate to assure that such aggregate accrued interest is provided for. This will assure that such accrued

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interest assets can be held as admitted assets. The insurer's valuation actuary may voluntarily increase the statutory reserve liability on each such policy in order to eliminate the need to non-admit a portion of the accrued interest policy lien or policy loan.

IV. BENEFIT PAYMENT LIENS

This section deals specifically with benefit payment liens and their effect on future policy premiums and benefits.

A. The presence of a lien against the policy does not require a pro-rata reduction in the policy premiums or other values.

B. Amount of lien computed as of the date of death may be deducted from the death benefit.

C. Access to non-forfeiture benefits upon surrender or through future policy loans may be restricted to any excess of the cash surrender value over the sum of any outstanding loans and the lien.

D. If the lien approach is used and RPU is available as a non-forfeiture benefit, the amount of RPU may be calculated as if no lien existed and the lien may continue to apply, provided that the lien continues to satisfy any percentage and dollar maximums and minimums specified in the contract. Alternatively, RPU may be made unavailable while the lien exists, provided an ETI benefit is available. Alternatively, the excess, if any, of the cash surrender value over the sum of outstanding loans and the lien may be applied in calculating the amount of the RPU, provided an ETI benefit is available. If the choice of methods is not left as an option to the policyholder, the rider or policy form should specify which method will apply.

E. If the lien approach is used and ETI is available as a non-forfeiture benefit, the period of ETI may be calculated as if no lien existed and the lien may continue to apply, provided that the lien continues to satisfy any percentage and dollar maximums and minimums specified in the contract.

F. If the lien approach is used, any accelerated death benefit payment may first be applied toward repaying that portion of any outstanding policy loans which causes the sum of the accelerated death benefit and policy loans to exceed the cash value. Alternatively, outstanding policy loans may be retained and the lien that would otherwise be allowed may be reduced by any outstanding policy loans at the time of acceleration. If the choice of methods is not left as an option to the policyholder, the rider or policy form should specify which method will apply.

G. The rider or policy form accelerated benefit lien provisions may specify that the existence of a benefit lien will not prevent termination of the policy in accordance with the regular policy termination provisions.

H. If a policy terminates while subject to a lien, the insurer shall extinguish the lien without further recourse to the policyholder unless the policy or rider clearly indicates otherwise. In the event that the policy is reinstated, the lien may also be reinstated with interest accrued as if the policy had never terminated.

I. The policyholder should have the option of paying all or part of any premium or accrued interest that would be capitalized under the terms of the rider or policy provisions in cash,

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as well as the option of repaying all or part of any lien in cash, in order to prevent the lien from causing the policy to terminate.

V. GENERAL CONSIDERATIONS

The items below should be considered, where applicable, for all types of accelerated benefits:

A. The rider or policy form should specify whether any premium becoming due after the initial accelerated benefit payment is established needs to be paid in cash or whether additional accelerated benefit payment will be made to cover such premiums as they become due. Either approach is equally acceptable.

B. The rider or policy form may specify any percentage and dollar minimum and maximum payments that may be accelerated. Any dollar or percentage minimums or maximums is equally acceptable. If no maximum is specified, it will be assumed to be 100% of the death benefit.

C. The accelerated benefit may include a reasonable expense charge for administrative expenses and risks assumed by the company. If the available amount of the initial accelerated benefit is less than the maximum allowed, the rider or policy form should specify how such initial amount will be determined.

D. The rider or policy form should specify the actions required, if any, to prevent policy termination if premium or interest expected to be capitalized would result in a total accelerated benefit payment exceeding the percentage or dollar maximum amount specified in the rider or policy form. Any such excess may be required to be paid in cash within an appropriate grace period in order to prevent policy termination. The rider or policy form may also specify that future premiums or interest becoming due must be paid in cash. If not specifically addressed, the rider or policy should remain inforce and be administered with no change from the premium or interest requirement that existed immediately prior to the time at which the maximum was reached and the accelerated benefit would not be increased beyond the maximum specified in the rider or policy form.

E. The rider or policy form may specify whether the accelerated benefit provision would apply to the original base insurance policy death benefit or the current insurance policy death benefit. If not specifically addressed, the rider or policy form should be administered as if maximums are automatically increased, but not automatically decreased.

F. The rider or policy form may specify that an accelerated benefit is not available unless established prior to the policyholder's election of or lapse to ETI or RPU. If not specifically addressed, the rider or policy forms should be administered to provide an accelerated benefit after election of or lapse to ETI or RPU.

G. The rider or policy form may specify that an accelerated benefit is not available if the policy has an irrevocable beneficiary or is assigned when accelerated benefits are initially claimed. Alternatively, the irrevocable beneficiary or assignee must provide a signed acknowledgement of concurrence for payout. The rider or policy form may specify that the policy may not be assigned (except to the insurer) after an accelerated benefit has been paid.

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Actuarial Guideline XXVIII

STATUTORY CLAIM RESERVES FOR GROUP LONG-TERM DISABILITY CONTRACTS WITH A SURVIVOR INCOME BENEFIT PROVISION

Background

Many of the major writers of group long-term disability income insurance have included survivor benefits in such contracts. Provisions related to the survivor benefit include minimum disability periods, benefit amounts defined in terms of a number of months of disability benefits and a specified percentage of the monthly disability benefit.

This benefit is sometimes overlooked in the valuation process or ignored as being trivial in amount.

Drafting Note: Please see the 1990 "Proceedings," Vol. 2, Pages 995-999 and the 1991 "Proceedings," Vol. 1B, Pages 1321-1328.

Text

Claim reserves for survivor income benefits contained in group long-term disability contracts must be established based on the design of the survivor income benefit including the minimum period of disability before the spouse of a disabled person becomes eligible for a survivor income benefit and the amount of the benefit. A suitable approximation to the sum of the reserves for the basic disability benefit and the reserve for the survivor income benefit can be calculated by computing the reserve for the basic disability at an interest rate less than the maximum valuation interest rate.

Before any approximation can be accepted, rigorous testing of the approximation to the combined reserves for both the basic disability claim and the survivor income benefit must be performed. Tests indicated that basic disability reserves and survivor income benefit based on a 12-month disability requirement and a maximum survivor income benefit duration of 24 months with a survivor income benefit of .667 of the disability income with all reserves based on a valuation interest rate of 5.5% can be adequately approximated by basic disability reserves alone but calculated at a 3.5% valuation interest rate.

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Actuarial Guideline XXIX

GUIDELINE CONCERNING RESERVES OF COMPANIES IN REHABILITATION

Preamble

The life insurance and annuity contracts of life insurance companies can be restructured by court order in rehabilitation proceedings. The contract restructuring may take the form of reduction in account values and/or guaranteed interest crediting premiums. Typically, the court order imposes restrictions on surrender of the contract while the company is in rehabilitation. These restrictions can include bans on surrenders while a rehabilitation plan is being developed and temporary limitations on the cash that can be obtained upon surrender. These restrictions are intended to prevent *en masse* surrenders while the company faces liquidity problems.

Several issues have arisen as to the interpretation of the Standard Valuation Law in these circumstances. The issues relate to the interpretation of the Commissioners' Reserve Valuation Method (CRVM) and the Commissioners' Annuity Reserve Valuation Method (CRVM), the determination of the guaranteed nonforfeiture benefits provided in the restructured contract and identification of the issue date of the contract after restructuring.

The Standard Valuation Law does not specifically address minimum reserve requirements after a contract has been restructured by court order. The minimum reserve requirements should be interpreted in the context of court-ordered contract restructuring to result in the most appropriate reserves under the particular circumstances. In general, this should be left to the regulators to determine.

Guideline

The phrase "future guaranteed benefits, including guaranteed nonforfeiture benefits," as used in CARVM, includes the cash surrender values based on contractual guarantees after reduction for any surrender charges available under the contract. In general, the value of future guaranteed benefits under CARVM may not be reduced by contingent surrender charges which may not be available upon cash surrender. See *Guideline Covering the Commissioners' Annuity Reserve Valuation Method (CARVM) (1985).*

Whether or not a court-imposed temporary restriction on the availability of cash on surrender is taken into account under CARVM depends upon whether the rehabilitation plan specifies that the restriction is a reduction in the guaranteed nonforfeiture benefits in the restructured contracts. If the rehabilitation plan imposes a distinct temporary charge to ensure liquidity as opposed to changing common surrender charges that are historically used to determining nonforfeiture benefits, the temporary charges will not reduce guaranteed nonforfeiture benefits for purposes of CARVM.

A similar rule applies for purposes of reporting those reserves on life insurance contracts entitled "For surrender values in excess of reserves otherwise required."

For life insurance contracts, CRVM does not dictate that a particular method must be applied after a contract has been restructured. In the case of policies providing for a varying amount of insurance or requiring the payment of varying premiums, reserves are calculated by a method consistent with CRVM applicable to policies providing for a uniform amount of insurance and requiring the payment of uniform premiums.

A method consistent with CRVM adopted for purposes of a rehabilitation program should consider the valuation bases and expense allowance prior to restructuring as well as after restructuring. Depending upon the types of changes to the restructured contract, it may or may not be appropriate to take into account the guaranteed benefits and premium structure prior to restructuring.

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The issue date for purposes of determining the applicable mortality tables and interest rates also depends on the circumstances. For example, it may be appropriate to treat annuity contracts as newly issued so that reserves are required to be recomputed using more current discount rates. However, in the same rehabilitation plan it may be inappropriate to treat a restructured level premium whole life contract as newly issued. Accordingly, whether a contract is treated as having a new issue date after contract restructuring depends upon the terms of the rehabilitation plan and the restructured contracts. In general, contracts are not treated as newly issued unless the rehabilitation plan or state filing for the restructured contracts so provides.

Similarly, the appropriate CRVM expense allowance will depend upon the terms and the intent of the restructuring and rehabilitation plan. Depending upon the types of changes to the restructured contract, it may be appropriate to carry forward an unamortized expense allowance based on original policy date. In other cases, a new unamortized expense allowance would be calculated as of the restructure date. In general, a new unamortized expense allowance is not calculated unless the rehabilitation plan or the state filing for the restructured contract so provides.

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Actuarial Guideline XXX

GUIDELINE FOR THE APPLICATION OF PLAN TYPE TO GUARANTEED INTEREST CONTRACTS (GICS) WITH BENEFIT RESPONSIVE PAYMENT PROVISIONS USED TO FUND EMPLOYEE BENEFIT PLANS

Background Material

Guaranteed Interest Contracts (GICs) that are used to fund employee benefit plans often times contain a provision that allows individual participants to voluntarily move funds on a book value basis to other investment opportunities. These contracts also allow for the withdrawal of funds on a book value basis to provide employee benefits such as a death benefit to a surviving beneficiary, disability benefits and benefits paid upon bona fide termination of employment. In the situations described above, the individual participant is to be distinguished from the policyholder. Typical contractual language is as follows:

1. Withdrawal for Redirection of Investments - Subject to the provisions of Subsection____above, the contract owner shall direct the withdrawal and transfer to the contract owner of the pro rata amounts from the accumulation accounts for the purpose of redirecting an employee investment to an equity fund in accordance with the provision of the Plan.

2. Withdrawal for Plan Benefit Payments - Subject to the provisions of Subsection____above, the contract owner shall direct the withdrawal and transfer to the contract owner of the pro rata amounts from the accumulation account due to distribution made to participants (or to their beneficiaries in case of the participant's death) under the Plan.

Both examples of contractual language make reference to the "provisions of the Plan." Plan provisions reduce the disintermediation (C-3) risk, from the insurance company standpoint, associated with GICs. For example, plan provisions may restrict the opportunity for the 401 (k) plan participant to move funds from the GIC option to a competing "guarantee of principal" option within the plan.

The Standard Valuation Law utilizes a concept known as Plan Type to distinguish between different levels of voluntary withdrawal rights by policyholders. Voluntary withdrawal rights are contractual policyholder rights which may be exercised at the option of the policyholder and do not include such items as scheduled contractual payouts or payouts upon termination. The greater the level of voluntary withdrawal right afforded to the policyholder, the more conservative is the resulting valuation interest rate. Plan Types are designated in the Standard Valuation Law as with Plan Type A, Plan Type B or Plan Type C and are defined as follows:

1. Plan Type A is a plan under which the policyholder may not withdraw funds, or may withdraw funds at any time but only (a) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, (b) without such an adjustment but in installments over five years or more, or (c) as an immediate life annuity.

2. Plan Type B is a plan under which the policyholder may not withdraw funds before expiration of the interest rate guarantee, or may withdraw funds before such expiration but only (a) with an adjustment to reflect changes in interest rate or assets values since receipt of the funds by the insurance company, or (b) without such an adjustment but in installments over five years or more. At the end of the interest rate guarantee, funds may be withdrawn without such adjustment in a single sum or installments over less than five years.

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3. Plan Type C is a plan under which the policyholder may withdraw funds before expiration of the interest rate guarantee in a single sum or installments over less than five years either (a) without adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (b) subject only to a fixed surrender charge stipulated in the contract as a percentage of the funds.

Text

For purposes of the application of the Standard Valuation Law to Guaranteed Interest Contracts (GICs) with benefit responsive provisions, the withdrawal of funds at book value for the purpose of redirecting or withdrawing an employee investment shall be considered a withdrawal by the policyholder unless the underlying plan or GIC contain written provisions which are designed to reduce the C-3 risk to the insurance company. As an example, a provision which meets this criteria would include both the following:

1. No direct transfer to competing funds, whether such funds are alternate funds of the insurance company or not. This provision prohibits direct transfer of funds from the GIC option to a competing plan option that offers either a guarantee of principal or to an option in which the risk of loss of principal is small such as a money market fund or short-term bond fund. Any transfer to such an option must first go through an non-competing plan option and reside there for at least 90 days or three months.

   and

2. For GICs that fund plan investment options where interest is allocated to plan participants based on how much of their account balance is in each particular interest rate "cell," participants are not allowed to redirect any of the balance they have in a GIC funding a particular cell to a competing fund until the GIC's maturity date.

In addition, the valuation actuary must be satisfied that the GIC provisions designed to reduce the C-3 risk are administered by the insurer in the designed manner.

This requirement may be fulfilled by obtaining from the appropriate insurance company officer a certificate of intent regarding the insurance company administration of the provisions.

In addition, the valuation actuary must periodically review the actual experience under the contract to verify the appropriateness of the Plan Type assumption with reference to this Guideline.

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Actuarial Guideline XXXI

VALUATION ISSUES VS. POLICY FORM APPROVAL

Background

Occasionally, the NAIC Life and Health Actuarial Task Force addresses valuation (reserve) issues related to a policy form or benefit design that has not been accepted or approved by a particular state. The development of reserving methods or providing guidance concerning reserve questions for such policy forms is necessary because the annual statement filed in each state, including states for which a particular policy form has not been approved for use, must reflect appropriate reserve for all policy forms and associated benefits.

Text

The adoption of an Actuarial Guideline by the NAIC Life and Health Actuarial Task Force dealing with a reserve issue associated with a particular policy form or benefit does not represent an endorsement for the approval of the particular policy form or benefit.

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Actuarial Guideline XXXII

RESERVE FOR IMMEDIATE PAYMENT OF CLAIMS

Background Material

Section 5 Reserve Valuation Method—Life Insurance and Endowment Benefits of the NAIC Standard Valuation Law refers to an annual premium in defining the commissioners reserve valuation method. However, it has been general practice to hold an additional reserve where fractional premiums are paid and any fractional premium not yet due in the policy year of death is waived and to hold a further additional reserve for the refund of any premium paid beyond the end of the month of the policy year of death. These additional reserves are called for in the Miscellaneous Section of Exhibit 8 of the annual statement. These additional reserves are generally included in the basic reserves where an insurer uses an assumption of continuous payment of premiums.

Although Section 7 of the NAIC Standard Nonforfeiture Law for Life Insurance explicitly permits in calculating nonforfeiture "the assumption that any death benefit is payable at the end of the policy year of death," there is no similar explicit permission to use such assumption in the NAIC Standard Valuation Law. The annual statement instructions are silent on any adjustment. At one time ago some life insurance policies provided that claims would be paid at the end of the policy year of death. However, for many years many policies have provided that claims will be paid immediately upon satisfactory proof of death. In fact, some states require that interest shall accrue from date of death.

Many insurers have held a reserve for immediate payment of claims either by an adjustment to curtate reserves or by including provision therefore in the basic reserves calculated on a continuous payment of claims basis.

Text

RESERVES FOR IMMEDIATE PAYMENT OF CLAIMS

I. Reserves based on either fully continuous functions or on semi-continuous functions where the death portion reflects approximately one half of one year's valuation rate of interest are considered as making appropriate provision for immediate payment of claims.

II. Where the basic reserves are based on curtate functions with no provision for immediate payment of claims:

1. For any policy where the contract calls for payment of death claims at the end of the policy year in which death occurs, no adjustment to curtate reserves need be made.

2. For any policy where the contract calls for payment of death claims immediately upon receipt of due proof of death of the insured, the death portion of curtate reserves shall be increased by one third of one year's valuation rate of interest. (Approximations may be used to split the total curtate reserves into death portion and the pure endowment portion.)

3. For any policy where the contract provides for payment of interest on the death proceeds from date of death to date of payment, the death portion of curtate reserves shall be increased by one half of one year's valuation rate of interest. (Approximations may be used to split the total curtate into the death portion.)

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III. Where an insurer pays interest on death proceeds at an earlier point than as required by contract, it is appropriate that the statutory formula reflect such practice.

IV. Where the actual formula reserves are more conservative than minimum statutory formula reserves, an insurer using curtate functions without provision for immediate payment of claims must demonstrate compliance with minimum statutory formula reserves adjusted in accordance with II above.

V. This guideline shall apply to all new life insurance policies issued beginning January 1 following the date the guideline is adopted.

VI. The guideline shall be applicable to policies issued prior to the date the guideline is adopted with any additional reserve graded in as follows for the years following the date the guideline is adopted:

1. First year 20%
2. Second year 40%
3. Third year 60%
4. Fourth year 80%
5. Fifth and later years 100%

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Actuarial Guideline XXXIII

DETERMINING CARVM RESERVES FOR ANNUITY CONTRACTS WITH ELECTIVE BENEFITS

Background Information

1. Introduction

The Standard Valuation Law (SVL) defines the methods and assumptions which are to be used in determining minimum statutory formula reserves. This law establishes the standards for annuity contracts (which therefore includes any annuity riders or endorsements, and any or all components of which, such as premiums, benefits, contract charges, primary or secondary accumulation values or other components, either relating to annuity benefits provided by the contract or providing separate annuity benefits) and includes the criteria for the interest and mortality assumptions to be used in determining minimum formula contract reserves. The 1980 revisions to the SVL provide for the maximum statutory formula reserve interest rate to be determined through a dynamic formula in order to incorporate changes in economic conditions, liquidity needs and the risks inherent in certain types of contracts.

The SVL defined methodology for annuity contracts, the commissioners annuity reserve valuation method (CARVM), requires that reserves be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by such contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of such contracts, that become payable prior to the end of such respective contract year. Such reserves are established to adequately fund all guaranteed contract obligations, including those obligations which are optional to the contract owner and which may not have yet been elected.

Industry practices and methods of reserving under CARVM for annuity contracts with multiple benefit streams have not been found to be consistent. These range from a low reserve equal to the cash surrender value to a reserve representing the greatest actuarial present value of the future benefit streams under all potential annuity or other nonforfeiture benefit election options using a conservative rate of interest.

The major purpose of this Actuarial Guideline is to provide clarification and consistency in applying CARVM to annuities with multiple benefit streams. Some of the areas requiring clarification include: the valuation of annuitization benefits; the application of incidence rates in CARVM; the application of the integrated benefit stream approach in CARVM; how to determine valuation interest rates and mortality tables for multiple benefit streams; and certain practical considerations regarding multiple benefit streams.

2. Annuitization Benefits

Varying forms of contracts provide that the cash value available to the contract owner is less than the amount available to purchase an annuitization option under the terms of the contract.

For purposes of this Actuarial Guideline, “accumulation fund” is defined as the policy value which is used to purchase an annuity option under the terms of the contract.

Frequently there are significant discontinuities in the reserves, both upward and downward, at the time a settlement option is elected, between the reserve held immediately prior to the settlement as

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compared to the reserve required for the greatest actuarial present value of the annuitization option elected.

One of the most significant reasons for discontinuities in the reserve patterns at the time of election is the difference in the SPIA valuation rate available at the time of election as compared to the valuation rate used based on the date of issue of the original SPDA contract. Another significant reason is the difference between the guaranteed purchase rate contained in the contract and used for reserve development as compared to the rate actually used to purchase the annuity option at the time of election.

3. Application of Incidence Rates in CARVM

Since CARVM was adopted, there has been an increase in the types of benefits offered under certain annuity contracts, including enhanced death benefits, nursing home benefits, and various partial withdrawal provisions, including some dependent on values other than those used to determine cash values and which may allow for benefits to continue past the point where the cash value is zero. For some of these benefit types, the SVL is not explicit as to whether incidence tables prescribed under the SVL may be used to determine such benefits, versus requiring consideration of all contract owner options available under the contract, and choosing the set of incidence rates which produce the greatest present value.

4. Integrated Benefit Stream Approach

CARVM requires that reserves be based on the greatest present value of all potential future guaranteed benefits. For annuity contracts offering more than one type of potential benefit stream, the SVL is not explicit regarding whether or how blends of more than one type of benefit must be considered under CARVM.

Under the integrated benefit stream approach, any potential benefit stream must be considered, including blends reflecting the interaction of more than one type of benefit. Such potential benefit streams include all types of benefits for which the greatest present value concept is required. Additionally, adjustments must be made to all such potential benefit streams to reflect those benefit types for which prescribed incidence tables are required (e.g., death benefits).

For example, consider an annuity contract offering surrender, annuitization and death benefits. Potential benefit streams that would be considered include surrender streams, annuitization streams, and streams reflecting blends of surrender and annuitization benefits. All such streams would also be adjusted to reflect death benefits and to discount all benefits for survivorship (based on the mortality table prescribed in the SVL).

5. Valuation Interest Rates

For annuities offering more than one type of benefit, the SVL is not explicit as to how valuation interest rates should be determined. The SVL is also not explicit as to how valuation interest rates should be determined for certain types of benefits offered under annuity contracts, such as death and nursing home benefits.

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Purpose

The purpose of this Actuarial Guideline is to codify the basic interpretation of CARVM and does not constitute a change of method or basis from any previously used method, by clarifying the assumptions and methodologies which will comply with the intent of the SVL. This Actuarial Guideline shall apply to all annuity contracts subject to CARVM, where any elective benefits (as defined below) are available to the contract owner under the terms of the contract. However, life or health insurance riders attached to an annuity contract, where all components of the rider (e.g., premiums, benefits, contract charges, accumulation values and other components) are separate and distinct from the components of the annuity contract, should be treated as a separate life or health insurance contract not subject to this Actuarial Guideline. While this Actuarial Guideline applies to all annuity contracts subject to CARVM, in the event an actuarial guideline or regulation dealing with reserves is developed for a specific annuity product design, the product specific actuarial guideline or regulation will take precedence over the Actuarial Guideline.

Definitions

1. Elective and Non-Elective Benefits in CARVM

   For purposes of determining reserves under CARVM, each benefit available under the annuity contract must be placed into one of the two categories defined as follows:

   Non-Elective Benefits: Benefits that are payable to contract owners or beneficiaries only after the occurrence of a contingent or scheduled event independent of a contract owner's election of an option specified in the contract, including (but not limited to) death benefits, accidental death benefits, disability benefits, nursing home benefits, and benefits payable under either a deferred or immediate annuity contract (with or without life contingencies), where no benefit options are available under the terms of the contract.

   Elective Benefits: Benefits that do not fall under the non-elective benefits category (i.e., benefit options that may be freely elected under the terms of the contract). Elective benefits include (but are not limited to) full surrenders, partial withdrawals, and full and partial annuitizations.

   In some cases it may not be clear whether some benefits are elective or non-elective. The presence of certain types of non-elective benefits may affect other non-elective benefits and/or elective benefits. The Valuation Actuary should use judgment in making these determinations by considering factors such as the degree to which contract owner actions would be influenced by the availability of each benefit in the contract.

2. Elective and Non-Elective Incidence Rates in CARVM

   For non-elective benefits, incidence rates from tables prescribed by the SVL should be applied to determine the payment of non-elective benefits and to discount, for survivorship, all benefit payments included in an Integrated Benefit Stream, as defined below. If no incidence tables are prescribed by the SVL, then company or industry experience (with margins for conservatism) may be used, as appropriate. Annuity mortality tables prescribed by the SVL should be used to determine all mortality based benefits under the contract (including, but not limited to, annuitizations and death benefits) and to discount other types of benefit payments for survivorship.

   Actuarial judgment should be used as to the appropriateness of applying any non-elective incidence rates other than mortality. For non-elective waiver-of-surrender-charge benefits other than mortality-based benefits and for similar non-elective benefits, incidence rates greater than zero are not to be applied at any time in the projection after the earlier of: (a) the end of the surrender charge period

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applicable immediately after the first premium is paid; and (b) when the projected cash value has been depleted.

For elective benefits, incidence rates should not be based on tables reflecting past company experience, industry experience or other expectations. Instead, every potential guaranteed elective benefit stream required to be reserved by CARVM must be considered in the determination of integrated benefit streams as defined below. This is accomplished by considering trial sets of guaranteed elective benefit incidence rates, either through numerical testing or analytical means, to determine which trial set produces the "greatest present value" as described in Text paragraph 1 below. Theoretically, this means that all possible elective benefit incidence rates between 0% and 100% should be considered. However, in practice, such a greatest present value will typically occur by assuming an incidence rate of either 0% or 100%.

3. Integrated Benefit Stream

An integrated benefit stream is one potential blend of guaranteed elective and non-elective benefits available under the contract, determined as the combination of A and B, where:

A equals one potential stream of one or more types of guaranteed elective benefits available under the terms of the contract, based upon a chosen set of elective benefit incidence rates; and

B equals the stream of all guaranteed non-elective benefits provided under the terms of the contract, recognizing the guaranteed elective benefit stream under consideration in A above, and the non-elective incidence rates defined in 2. above.

Both A and B above should be discounted for survivorship, based on the non-elective incidence rates defined in 2. above.

Text

1. Greatest Present Value

All guaranteed benefits potentially available under the terms of the contract must be considered in the valuation process and analysis and the ultimate policy reserve held must be sufficient to fund the greatest present value of all potential integrated benefit streams, reflecting all guaranteed elective and non-elective benefits available to the contract owner. Each integrated benefit stream available under the contract must be individually valued and the ultimate reserve established must be the greatest of the present values of these values, based on valuation interest rate(s) as defined in Section 3 below.

2. Examples of Integrated Benefit Streams That Must Be Considered

A. Cash Value Streams

One mandatory set of integrated benefit streams for a deferred annuity with cash settlement values which must always be considered is any possible blend of future guaranteed partial withdrawals and full surrenders available under the contract, as specified in the SVL, accumulated at the guaranteed credited interest rate(s) and discounted at the valuation rate(s) of interest defined in section 3 below, with appropriate recognition of all guaranteed non-elective benefits available under the contract.

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B. Annuitization Streams

A second mandatory set of integrated benefit streams that must be considered is any possible blend of future guaranteed full or partial annuitization elections, as specified in the SVL, available to the contract owner at each election date required by CARVM, with appropriate recognition of all guaranteed non-elective benefits available under the terms of the contract. In determining the integrated benefit streams to value the annuitization option, the guaranteed purchase rates contained in the contract, as well as any other contract provisions, excluding any current purchase rates which may be applicable, are applied to the accumulation fund.

C. Other Elective Benefit Streams

In addition to the cash value and annuitization streams described above, all other possible guaranteed elective benefits available under the contract, including blends of more than one type of guaranteed elective benefit, must be considered in a manner consistent with the mandatory cash value and annuitization streams, with appropriate recognition of all guaranteed non-elective benefits available under the contract.

3. Determination of Valuation Interest Rates

Section 4b of the SVL determines valuation rates for an annuity contract based on the following Parameters:

A. The basis of valuation (issue year or change in fund);

B. Whether or not the annuity provides for cash settlement options;

C. Whether interest is guaranteed on premiums received more than 12 months following issue (or the valuation date for change in fund basis);

D. The guarantee duration; and

E. The Plan Type.

Parameters A, B and C above should be determined at a contract level. Additional requirements regarding the change in fund basis of valuation are set forth in Section 5 below. Parameters D and E should be determined at a benefit level, as set forth in Section 4 below.

Under a contract level determination, parameters are set based on the characteristics of the contract as a whole. Under a benefit level determination, parameters are set based on the characteristics of each benefit, resulting in potentially different valuation rates for each benefit type comprising the integrated benefit stream.

4. Determination of Guarantee Duration and Plan Type

Guarantee duration and Plan Type are based upon the specific characteristics of each individual benefit type that comprise the integrated benefit stream, as follows:

A. For portions of the integrated benefit stream attributable to full surrender and partial withdrawal benefits, the Plan Type should be based upon the withdrawal characteristics of the benefit, as stated in the contract. This may result in a Plan Type A, B or C under the 1980 amendments of the SVL. The guarantee duration is the number of years for which interest rates are guaranteed in

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excess of the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty (20) years.

B. For portions of the integrated benefit stream attributable to full and partial annuitization benefits, the determination of the valuation interest rate involves the use of the appropriate Plan Type and weighting factor as determined by the SVL, with the guarantee duration as the number of years from the original date of issue or date of purchase, to the date the annuitization is assumed to commence. If the underlying assumption is that the contract owner may withdraw funds only as an immediate life annuity or as installments over 5 years or more, this will generally result in a Plan Type A, under the 1980 amendments of the SVL, with the valuation interest rate changing as different assumed annuitization dates determine guarantee durations which will fall into different guarantee duration bands under the SVL. An assumed annuitization option which has a non-life contingent payout period of less than five (5) years shall be considered a Plan Type C, with the valuation interest rate changing as different assumed annuitization dates determine guarantee durations which will fall into different guarantee duration bands under the SVL.

C. For portions of the integrated benefit stream attributable to non-elective benefits, since the underlying assumption is that no withdrawal is permitted, Plan Type A should generally be used, with a guarantee duration determined as the number of years from issue or purchase to the date non-elective benefits may first be paid. In most cases, the guarantee duration should be less than five years, since non-elective benefit coverage usually begins immediately after issue, with benefits payable commencing in the first contract year.

For benefit types incorporating multiple payments, paragraphs 4(A), 4(B), and 4(C) above should be applied to each separate payment according to the withdrawal, annuitization, or non-elective benefit characteristics of the contract and payment provisions at the time each payment is to be made. If a portion of the integrated benefit stream is part of an immediate life annuity or a series of installments over five (5) years or more, but can be changed directly or indirectly by exercise of contract owner withdrawal options, then it would be inappropriate to apply paragraph 4(B) to that portion of the integrated benefit stream, since the contract holder may withdraw funds other than as a life annuity or in installments of five (5) years or more.

For example, a Guaranteed Lifetime Income Benefit (GLIB) is a guarantee to the owner of a fixed deferred annuity contract, whether traditional or indexed to an external referent such as an equity index, that the owner can have a defined income for life in an amount determined by formula, while the owner retains traditional rights (such as withdrawal) to the other values provided by the underlying deferred annuity and while such values continue to exist. Income benefits are typically deducted from one or more of the annuity's defined values to the extent such values remain positive. Once the GLIB is elected, the contract owner may have rights to stop and restart the income benefit and may also request full or partial surrender of any remaining annuity value, though doing so may negatively impact or eliminate subsequent guaranteed income benefits. Thus, applying 4(A) and 4(B) above, the GLIB benefit stream is seen to be composed of two portions to determine the Plan Type and guarantee duration, as follows:

The first portion consists of the series of defined payments to the extent that the payments, or any fraction thereof, are withdrawals that reduce or deplete the annuity's defined values. Applying paragraph 4(A) to this portion would result in Plan Type A, Plan Type B, or Plan Type C, by following the definitions of such contained within the Standard Valuation Law and reflecting the specific contract provisions, especially with regard to withdrawal. Paragraph 4(A) would also apply to any residual withdrawals that can be made following election of the GLIB benefit.

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The second portion is a life annuity without option to take or receive additional amounts under the contract, and consists of the payments not included in the above portion. Applying paragraph 4(B), Plan Type A would generally apply to this segment with the guarantee duration determined using the period from contract issue to commencement of payments in this second portion.

5. Change in Fund Basis

As indicated by section 4b.C.(1)(c)(vi) of the SVL, a company may elect to value annuity contracts with cash settlement options on either an issue year basis or on a change in fund basis. Annuity contracts with no cash settlement options must be valued on an issue year basis. The issue year basis or change in fund basis should be determined for the contract as a whole, and thus must be consistently applied to all portions of all integrated benefit streams available under the annuity contract. The election of issue year or change in fund basis must be made at the issuance of the contract and must not change during the term of the contract without the prior written approval of the commissioner.

6. Purchase Rates

Contracts may provide, as contractual guarantees, the use of preferential purchase rates to those listed in the contract. As an example, a contract may provide that the company will offer, at the time of annuitization, the rates offered to new purchasers of immediate annuities if such rates will provide a higher annuity benefit than would result from the contractually guaranteed rates provided in the contract. This creates a contract guarantee which must be valued under CARVM. Ignoring this benefit in determining reserves will produce reserves less than the statutory formula reserves required under CARVM. Valuation of this benefit, however, is complicated by the fact that the company does not currently know what the exact rate will be at the time of the settlement election. In order to determine conservative statutory formula reserves, if use of future unknown rates are guaranteed, the company shall establish reserves not less than the contract's accumulation fund value, on the valuation date, reduced by an "expense allowance" not to exceed 7% of such fund. This section does not require the calculation of a reserve for the annuitization of business based upon current purchase rates pursuant to the "annuitization streams" described in Paragraph 2.B. above.

Likewise for contracts which provide for additional amounts during the payout period over those guaranteed at the commencement of the annuity payments, the reserve during the deferred period shall not be less than the contract's accumulation fund reduced by an expense allowance not to exceed 7% of such fund.

7. Practical Considerations

The major purpose of this Actuarial Guideline is to provide clarification and consistency in applying CARVM to annuities with multiple benefit streams. However, in practice there may be other acceptable methods of applying CARVM which are substantially consistent with the methods described in this Actuarial Guideline. Such methods may also be used, with prior regulatory approval.

Additionally, in applying this Actuarial Guideline there may theoretically be an infinite number of contract owner options that are possible under the contract. However, it may not be practical, possible or even appropriate to test every conceivable combination of potential integrated benefit streams theoretically available under the contract. This Actuarial Guideline requires that the actuary consider, not necessarily test, all potential integrated benefit streams to determine to what extent each contract owner option has a material impact on the reserve. In practice, the actuary may be able to eliminate some potential integrated benefit streams by analytical methods. The actuary may also be able to demonstrate the reserve adequacy of certain approximations. For example, in certain situations it may

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be shown that a CARVM reserve ignoring non-elective benefits, plus an "add-on" reserve for non-elective benefits, is a reasonable approximation for the theoretically correct CARVM reserve.

Effective Date

This guideline shall be effective on December 31, 1998, affecting all contracts issued on or after January 1, 1981. A company may request a grade-in period for contracts issued prior to December 31, 1998 from the domiciliary commissioner upon satisfactory demonstration that the method and level of current reserves held for such contracts are adequate in the aggregate. This phase-in will require establishment of no less than 33 1/3% of the additional reserves resulting from the application of this guideline on December 31, 1998, no less than 66 2/3% on December 31, 1999, and 100% by December 31, 2000.

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Actuarial Guideline XXXIV

VARIABLE ANNUITY MINIMUM GUARANTEED DEATH BENEFIT RESERVES

Actuarial Guideline XXXIV was repealed December 30, 2009, and was replaced by *Actuarial Guideline XVIII—CARVM for Variable Annuities*, effective December 31, 2009.

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Actuarial Guideline XXXV

THE APPLICATION OF THE COMMISSIONERS ANNUITY RESERVE METHOD TO EQUITY INDEXED ANNUITIES

Background

The purpose of this Actuarial Guideline is to interpret the standards for the valuation of reserves for equity indexed annuities. This Guideline codifies the interpretation of the Commissioners Annuity Reserve Valuation Method (CARVM) by clarifying the computational methodologies which will comply with the intent of the Standard Valuation Law (SVL).

Equity indexed deferred annuity products provide policyholders with a minimum guaranteed interest accumulation rate on a portion of all premium payments and a portion of the growth, if any, of an equity based index such as the S&P 500. While there is no "typical" equity indexed product, there are design features that are common to most products. Some of these features are a participation rate guaranteed for one or more years, a cap on the portion of the index growth that is credited to policyholders, and a policy term which defines a time period for which current guarantees are applicable.

Equity indexed immediate annuity products provide policyholders with a minimum guaranteed annuitization rate and an opportunity to receive larger periodic payments based on the growth, if any, in an equity index. The product design may include features such as a participation rate, cap or term.

While contract parameters such as participation rate and cap are guaranteed for a period of time, growth of the underlying index is not. Index growth may be positive or negative. This combination of guaranteed parameters and unknown equity index growth makes the application of CARVM to these products problematic.

CARVM defines minimum statutory reserves as "the greatest of the respective excesses of the present value, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, … over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of such contract, that become payable prior to the end of such respective contract year. The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate, or rates, specified in such contracts for determining guaranteed benefits."

In order that all insurers issuing equity indexed annuity products establish reserves for statutory reporting purposes that are consistent with CARVM minimum statutory formula reserves requirements, this actuarial guideline identifies a computational method that is deemed to be consistent with CARVM in situations when specific operational criteria called "Hedged as Required" criteria are met. In addition, two computational methods are defined that are deemed to be consistent with CARVM in the event the "Hedged as Required" criteria are not met.

Two forms of the "Hedged as Required" criteria are provided. The "basic" criteria are applicable when an insurer uses long dated options to hedge the equity risk embedded in an equity indexed annuity. The second set of criteria is applicable when an insurer uses an option replication strategy.

Scope

This Actuarial Guideline applies to all equity indexed annuity contracts, regardless of the date of issue, that are subject to CARVM.

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Computational Methods

Computational methods deemed to be consistent with CARVM can be classified into two groups, Type 1 methods and Type 2 methods. The following computational method is considered a Type 1 method: the Enhanced Discounted Intrinsic Method (EDIM). Type 1 computational methods are deemed to be consistent with CARVM if the applicable "Hedged as Required" are met. The following methods are considered Type 2 methods: the Commissioners Annuity Reserve Method with Updated Market Values (CARVM with UMV) and the Market Value Reserve Method (MVRM). Also, an adaptation of the MVRM, known as the Black-Scholes Projection Method (BSPM), is recognized. For a complete description of these methods, please consult Attachment 1.

General Requirements on the Use of Certain Computational Methods

The MVRM and EDIM computational methods are both based on a future value. In the case of MVRM, a projected index is determined. The projected index is then used to determine end of term and interim benefit amounts. CARVM is applied to these benefit amounts. In the case of EDIM, the end of term guaranteed value (a future value) is used to determine an interest rate for calculating terminal reserves for the guaranteed benefits after the initial terminal reserve. Determination of the "term" is an essential component of both computational methods.

The EDIM, MVRM and the BSPM adaptation of the MVRM computational methods are considered acceptable interpretations of CARVM under the following conditions:

1. The policy form design features a single dominant benefit which is the most likely benefit to be provided under the policy form with the determination of the single dominant benefit based on a consideration of product features such as the pattern of guaranteed participation rates, surrender charges, vesting rates, spread deductions, and marketing/advertising material.

2. The point in time associated with the single dominant benefit most likely to be provided under the contract is used as the terminal point of the current term for purposes of applying the computational method and complying with the "Hedged as Required" criteria, if applicable.

3. The appointed actuary has demonstrated to the satisfaction of the regulatory officials in each state in which the insurer is required to submit a statutory financial statement, prior to the use of the MVRM or EDIM computational methods, that the requirements above have been met.

Variations from the MVRM and EDIM as described in Attachment 1, are not acceptable interpretations of CARVM. The BSPM is considered an acceptable adaptation of the MVRM.

Type 1 Methods

A Type 1 computational method is deemed to be consistent with CARVM if an insurer using the method complies with the applicable "Hedged as Required" criteria (Attachment 2) and provides a certification as to compliance with the criteria. The certification must be signed by the appointed actuary. The certification shall be provided with each annual and quarterly statutory financial statement filed with the appropriate insurance regulatory official in each state in which the insurer does business.

For purposes of determining compliance with the "equivalence of characteristics" requirement in the "Hedged as Required" criteria, the current term of an equity indexed deferred annuity policy will be determined based on the requirements in the section captioned "General Requirements on Use of Certain Computational Methods." For purposes of applying a Type 1 computational method, the time horizon for

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present value calculations should be based on the current term of the policy based on the requirements in the section captioned "General Requirements on Use of Certain Computational Methods."

The Enhanced Discounted Intrinsic Method (EDIM) requires an initial reserve amount that is determined by methods that are not specifically included in the EDIM. For purposes of compliance with statutory minimum formula reserve requirements, the initial reserve under EDIM must be set at least equal to the initial reserve produced by either CARVM with UMV, or the MVRM with assumptions used to compute any necessary option market values reasonable as of the date of issue of the policy. The insurer must provide a certification (Attachment 3) as to the reasonableness of the assumptions.

Type 2 Methods

The use of Type 2 method is not conditioned upon the requirement to meet the "Hedged as Required" criteria. However, an insurer using a Type 2 method must provide a certification (Attachment 4) signed by the appointed actuary with each annual and quarterly statutory financial statement filed with the appropriate insurance regulatory official in each state in which the insurer does business. This certification deals with the assumptions underlying the option market values included in the calculation of reserves using a Type 2 method and the consistency in assumptions between these option market values and the statement value of any options owned by the insurer to support the equity indexed annuity business being valued.

For purposes of applying the MVRM and the BSPM recognized adaptation computational methods, the time horizon for present value calculations should be based on the requirements in the section captioned "General Requirements on Use of Certain Computational Methods."

Required Change in Method

In the event an insurer that is using a Type 1 computational method for a block of business fails to meet the applicable "Hedged as Required" criteria, the required actuarial certification must disclose this fact. If the reason for failing the "Hedged as Required" criteria is not corrected within one quarterly financial reporting of the initial disclosure of the failure in the actuarial certification, the insurer must use a Type 2 computational method for determining minimum statutory formula reserves for this block of business.

If at a later date, the insurer can demonstrate to the satisfaction of its domiciliary commissioner that it is meeting the applicable "Hedged as Required" criteria, the insurer may, with the approval of the domiciliary commissioner, resume using a Type 1 computational method. In addition, the insurer must notify the appropriate regulatory official in each state in which the insurer does business subject to the change in computational method.

Optional Change in Method

An insurer using either a Type 1 or Type 2 computational method for a block of business, may with the approval of its domiciliary commissioner and after notifying the appropriate regulatory official in all the other states in which the insurer writes this block of business, use a computational method of the other type. If the change in computational methods involves a change from a Type 2 computational method to a Type 1 computational method, the request to the domiciliary commissioner for approval of the change in method must be accompanied with a demonstration of compliance with the applicable "Hedged as Required" criteria.

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Plan Type

The use of either a Type 1 computational method or a Type 2 computational method requires a determination of Plan Type for purposes of determining the maximum valuation interest rate. Design features unique to equity indexed annuities, such as an equity enhanced surrender values, vesting schedules, or participation rate, should not used to determine the Plan Type of a policy form. Only those design features specifically identified in Section 4b. Paragraph C of the NAIC Model SVL may be used to assign a Plan Type to a policy form.

The definition of Plan Type A and Plan Type B in the NAIC Model SVL includes the phrase "with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company..." The reference to "change in ... asset values" does not include changes in policy values due to changes in the equity index underlying the policy form.

Other Regulatory Requirements

The guidance provided in this Actuarial Guideline concerning statutory minimum formula reserves for equity indexed annuity products supersedes the valuation guidance in Sections 5 and 6 of the NAIC Interest-Indexed Annuity Contracts Model Regulation.

Asset Adequacy Testing of Reserves

To the extent required by law, regulation, or regulatory requirements, reserves established for equity indexed annuity policies must be tested for adequacy using appropriate methods and assumptions.

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ATTACHMENT 1
Description of Computational Methods

CARVM-UMV

Step 1: For each duration and each benefit at which an index-based benefit is available, determine the market value of the appropriate call option. The appropriate call option is one that exactly hedges the floor of the benefit at that point in time. This means that the payoff of the call option should exactly equal the difference between the specific benefit available at that point in time (reflecting all relevant contract features) and the guaranteed floor of that benefit. The market value should be determined using an appropriate option pricing technique, such as Black-Scholes or a stochastic scenario method.

Step 2: The market value of all of the call options are projected forward at the appropriate valuation interest rate to the point in time at which the call option would expire. The valuation interest rate should be consistent with the requirements of any applicable Actuarial Guidelines or regulations, such as Actuarial Guideline XXXIII or Actuarial Guideline IX-B.

Step 3: The future guaranteed benefits for each benefit at each time point are determined by adding the guaranteed floors of the benefit to the amounts determined in Step 2.

Step 4: Now a CARVM calculation can be performed. The CARVM calculation should be in accordance with Actuarial Guideline XXXIII and any other applicable regulations or Actuarial Guidelines.

MVRM

Step 1: Calculate the projected index value at the end of the "term" which would produce a benefit at the end of the "term" equal to the sum of (1) the contract guarantee at that time, and (2) the current market value of the call option(s) which would fully hedge the index-based benefit, accumulated at the appropriate valuation interest rate. This calculation should be performed assuming equal annual percentage increases in the index. The call options used are those with maturity dates coterminous with the setting of participation rates, spreads, or any other method of determining index-based benefits. The valuation interest rate used to accumulate the call options should be consistent with the requirements of any applicable Actuarial Guidelines or regulations, such as Actuarial Guideline XXXIII or Actuarial Guideline IX-B. Note that the "term" referred to above should be consistent with the "term" described in this Actuarial Guideline.

Step 2: From the current level of the index and the projected level of the index at the end of the term, calculate an implied compound constant growth rate of the index from the valuation date to the end of the term. Use this implied growth rate to project the level of the index at intermediate anniversaries.

Step 3: All annuity benefits can now be determined from the index levels.

Step 4: Now a CARVM calculation can be performed. The CARVM calculation should be in accordance with Actuarial Guideline XXXIII and any other applicable regulations or Actuarial Guidelines.

MVRM Using Black-Scholes Projection Method

This is an adaptation of the basic MVRM approach to accommodate products for which the participation rate, spread, or any other benefit determination method is redetermined during the term (particularly annually).

Step 1: Calculate the cost of a full hedging call option as a percentage of the account value for the period that the benefit determination is guaranteed, accumulate the percentage to the end of that period at the risk-free interest rate, and use the accumulated percentage cost as the projected growth rate of the account value during the period. Perform the same type of calculation for each successive period within the term,

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giving recognition to the benefit guarantees, forward interest rates, forward index volatility, and index dividend levels.

Step 2: Determine the index level which would provide the projected account level on each anniversary on the basis of the participation rate, spread, or other benefit determination method used.

Step 3: All annuity benefits can now be determined from the index levels.

Step 4: Now a CARVM calculation can be performed. The CARVM calculation should be in accordance with Actuarial Guideline XXXIII and any other applicable regulations or Actuarial Guidelines.

EDIM

Step 1: The Fixed Component at issue is the formula reserve produced by either CARVM, UMV or MVRM. The Fixed Component at the end of the term is the floor of the benefit actually being hedged.

Step 2: The intermediate values of the Fixed Component are found by solving for the interest rate that would accumulate the initial value to the ending value. For example, assume you purchase options assuming that 90% of policyholders will surrender at maturity, and that 10% of policyholders will annuitize at maturity. The Fixed Component is the sum of (1) 90% of the Fixed Component that grows to the floor of the surrender benefit; and (2) 10% of the Fixed Component that grows to the floor of the annuitization benefit.

Step 3: The Equity Component is equal to the discounted intrinsic value of the options. The discounted intrinsic value of the options is found by taking the intrinsic value at the valuation date, and discounting at the valuation rate for the number of years from the valuation date to the end of the term. The valuation interest rate used to discount the intrinsic value of the call options should be consistent with the requirements of any applicable Actuarial Guidelines or regulations, such as Actuarial Guideline XXXIII or Actuarial Guideline IX-B.

Step 4: The reserve is the sum of a Fixed Component and an Equity Component.

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ATTACHMENT 2
Hedged as Required Criteria

In order to use a Type 1 computational method, the appointed actuary needs to certify quarterly that it meets either the "Basic" or "Option Replication" criteria.

Basic

1. Required equivalence of characteristics between the option contracts held and the options imbedded in the products with respect to specific contract features such as: Index, averaging features, option type, strike price, term, etc.

2. The amount of hedge purchased, at or near the contract issuance, must be greater than or equal to a Specified Percentage of the product's account value, at contract issuance. The Specified Percentage varies by the length of the option guarantee (some annual ratchet products may have a term of several years, but the participation rates are only guaranteed for one year, so the "term" for this purpose is 1 year), and allows the company to assume no more than 3% per year of elective benefit decrements, unless the Commissioner agrees to a higher limit. For example, for a five-year point-to-point product, the Specified Percentage would be: SP% = (1 - .03) ^ 5 = 86%.

3. The Company must have a specific plan for hedging risks associated with interim death benefits, early surrenders, etc.

4. The Company must have a system in place that is used to monitor the effectiveness of the company's hedging strategy.

5. The Company must have a stated maximum tolerance for differences between the expected performance of the hedge and the actual results of the hedge.

Option Replication

1. Required equivalence of characteristics between the target of an option replication strategy employed, and the options imbedded in the liabilities with respect to specific contract features such as: index, averaging features, option type, strike price, term, etc.

2. At the end of each quarter, the notional amount of the target of the option replication strategy must be greater than or equal to the sum of the Specified Percentages of each contract's account value. The Specified Percentage varies by the length of the remaining option guarantee (some annual ratchet products may have a term of several years, but the participation rates are only guaranteed for one year, so the "term" for this purpose is 1 year), and allows the company to assume no more than 3% per year of elective benefit decrements, unless the Commissioner agrees to a higher limit. For example, if a point-to-point contract has five years remaining, the Specified Percentage for that contract would be: SP% = $(1 - .03)^5$ = 86%. Appropriate assumptions for non-elective decrements such as mortality may be added to the assumption for elective decrements.

3. The company must have a specific plan for hedging risks associated with interim death benefits, early surrenders, etc.

4. The Company must have system in place that is used to monitor the effectiveness of the company's hedging strategy.

5. The Company must have a stated maximum tolerance for differences between the expected performance of the hedge and the actual results of the hedge. The maximum tolerance test and compliance evaluation test must meet the following minimum requirements. The compliance evaluation criteria will be a retrospective correlation test performed at least on a weekly basis.

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The Company will compare the change in the market value, from the beginning of the calendar quarter, of the hedge portfolio with the change in the market value of the options embedded in the liability portfolio. The maximum dollar amount of difference permitted between these two changes is10% of the beginning of period market value of the options embedded in the liabilities. If the difference exceeds this limit, the following steps must be taken:

- If for a second time during a quarter the dollar amount of difference exceeds 10% of the beginning of period market value of the options embedded in the liabilities, but is less than 25% of the beginning of period market value of the options embedded in the liabilities, the Company must notify the Commissioner of Insurance in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy.

- If at any of the weekly intervals, the difference between the two changes exceeds 25% of the beginning of period market value of the options embedded in the liabilities, the Company must notify the Commissioner of Insurance in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy and the impact on surplus of reporting the reserves based on the CARVM-UMV.

- If at any point in time during the quarter the difference between the two changes exceeds 35% of the beginning of period market value of options embedded in the liabilities, the insurer is deemed to be out of compliance with the "Hedged as Required" criteria, and the Company must notify the Commissioner of Insurance in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy and the impact on surplus of reporting the reserves based on the CARVM-UMV.

Drafting Note: The requirements discussed above deal with the situation in which the actual hedge underperforms relative to the expected hedge performance. The ability of an insurer to over-hedge may be constrained by other components of a state's regulatory framework including the state's investment article and regulations concerning the use of derivative instruments. For purposes of this Drafting Note, over-hedged means that at a particular point in time, the hedge portfolio exceeds the portfolio of liabilities being hedged. If over-hedged, the excess hedging instruments are excluded from the measurements required in Item 5 of the Hedged as Required Criteria.

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ATTACHMENT 3
Reasonableness of Assumptions Certification

The following certification must be filed in conjunction with each quarterly and annual statutory financial statement filed with the appropriate regulatory official in each state in which the insurer does business. The certification must be signed by the appointed actuary.

I, (state name and professional designation), am the appointed actuary for (company name). I have reviewed the assumptions underlying the values assigned to all equity options used in the determination of the initial statutory reserves under the Enhanced Discounted Intrinsic Method for all equity indexed deferred annuity products issued or reinsured by (company name) and reported in the statutory financial statement as of (the date of valuation). The assumptions used to determine such option market values are reasonable in light of the relevant economic conditions prevalent at the time of issue of each policy valued using the Enhanced Discounted Intrinsic Method.

_____

(Name of actuary)

_____

(Signature of actuary)

_____

(Date of certification)

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ATTACHMENT 4
Reasonableness and Consistency of Assumptions Certification

The following certification must be filed in conjunction with each quarterly and annual statutory financial statement filed with the appropriate regulatory official in each state in which the insurer does business. The certification must be signed by the appointed actuary.

I, (state name and professional designation), am the appointed actuary for (company name). I have reviewed the assumptions underlying the values assigned to all equity options used in the determination of statutory reserves for all equity indexed annuity products issued or reinsured by (company name) insurance company and reported in the statutory financial statement as of (the date of valuation). The assumptions used to determine such option market values are:

1. reasonable in light of current relevant economic conditions as of the date of valuation, and

2. are consistent with the comparable assumptions used to determine the statement value of any derivative instruments used to hedge the equity indexed based obligations embedded in the equity indexed annuities subject to this certification.

_____

(Name of actuary)

_____

(Signature of actuary)

_____

(Date of certification)

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Actuarial Guideline XXXVI

THE APPLICATION OF THE COMMISSIONERS RESERVE VALUATION METHOD TO EQUITY INDEXED LIFE INSURANCE POLICIES

Background

The purpose of this Actuarial Guideline is to clarify statutory and regulatory requirements for the valuation of reserves for equity indexed universal life insurance policies. This Guideline codifies the interpretation of the Commissioners Reserve Valuation Method (CRVM) by clarifying the computational methodologies that are deemed to comply with the intent of the Standard Valuation Law (SVL) and the Universal Life Insurance Model Regulation. These methodologies will be deemed to be consistent with CRVM.

Equity indexed universal life insurance policies include interest credits that are a combination of a guaranteed interest rate and an interest rate based on a percentage of the increase in an equity index, such as the S&P 500. Currently, there are only a few products in the market and the product designs have been straightforward. As new product designs emerge, this Actuarial Guideline may have to be revised.

In order that all insurers issuing equity indexed universal life insurance policies establish reserves for statutory reporting purposes that are consistent with CRVM minimum statutory formula reserves, this Actuarial Guideline identifies a computational method deemed to be consistent when specific operational criteria called "Hedged as Required" criteria are met. In addition, two other computational methods are defined that are deemed to be consistent with CRVM in the event the "Hedged as Required" criteria are not met.

Scope

This Actuarial Guideline applies to all equity indexed universal life insurance policies, regardless of the date of issue, that are subject to CRVM and would otherwise be subject to the reserve requirements under the Universal Life Insurance Model Regulation.

Definitions

Appointed Actuary. The appointed actuary, for purposes of this guideline, is the actuary appointed by the company's board of directors to provide opinions in accordance with Standard Valuation Law and the model Actuarial Opinion and Memorandum regulation.

Credited. Index-based benefits will be considered to be credited when they are added to the fund and treated in the same manner as other interest credits to the fund.

Term. An index-based benefit crediting period.

Computational Methods

Computational methods deemed to be consistent with CRVM can be classified into three groups, Type 1 methods, Type 2a methods and Type 2 methods. The following computational method is considered a Type 1 method: the Implied Guarantee Rate Method (IGRM). Type 1 computational methods are deemed to be consistent with CRVM only if the "Hedged as Required" criteria are met. The following is considered a Type 2a method: the Commissioners Reserve Valuation Method with Updated Average Market Value (CRVM with UAMV). The following is considered a Type 2 method: the Commissioners Reserve Valuation Method with Updated Market Value (CRVM with UMV). For a complete description of these methods, consult Attachment 1.

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The minimum reserve for equity indexed life insurance policies is the statutory reserve calculated under the Universal Life Insurance Model Regulation for an identical policy with no guaranteed index-based benefits. If the reserve produced by Type 1, Type 2a or Type 2, as appropriate, is greater than the minimum reserve, then that Type 1, Type 2a or Type 2 reserve is the minimum reserve.

Type 1 Methods

A Type 1 computational method is deemed to be consistent with CRVM if an insurer using the method complies with the "Hedged as Required" Criteria (Attachment 2) and provides a certification (Attachment 3) as to compliance with the criteria. The appointed actuary must sign the certification. The certification shall be provided with each annual and quarterly statutory financial statement filed with the appropriate insurance regulatory official in each state in which the insurer writes or reinsures equity indexed universal life insurance business.

For purposes of determining compliance with the "equivalence of characteristics" requirement in the "Hedged as Required" criteria, the current term of an equity indexed universal life insurance policy is one year or less. This should be interpreted consistently when a separate index-based benefit guarantee is made on each premium received.

The IGRM computational method is deemed to be consistent with CRVM under the following conditions:

1. The implied guaranteed rate for terms after the first, determined at issue using the method of Attachment 1, paragraph 3 of the IGRM method, is less than or equal to the appropriate maximum valuation interest rate.

2. Index-based benefit terms cannot be greater than one year. This should be interpreted consistently when a separate index- based benefit guarantee is made on each premium received.

3. The appointed actuary has demonstrated at time of filing or in conjunction with a change to a Type 1 Method, to the satisfaction of the regulatory officials in each state in which the insurer writes or reinsures equity indexed universal life insurance business, prior to the use of the IGRM that the requirements in (1) and (2) above have been met.

Type 2a Methods

A Type 2a computational method is deemed to be consistent with CRVM if an insurer using the method complies with Type 2a Prerequisite Criteria below, and provides Reasonableness and Consistency of Assumptions Certification (Attachment 4). The appointed actuary must sign the certification. The certification shall be provided with each annual and quarterly statutory financial statement filed with the appropriate insurance regulatory official in each state in which the insurer writes or reinsures equity indexed universal life insurance business.

Type 2a Prerequisite Criteria are as follows:

1. At issue, the policy satisfies (a) or (b) as follows:

   (a) The implied guaranteed rate for terms after the first, determined at issue using the method of Attachment 1, paragraph 3 of the CRVM with UAMV method, is less than or equal to the appropriate maximum valuation interest rate; or

   (b) Policies with identical renewal guarantees issued in three of the past five years would have satisfied condition 1 for the Type 1 method.

2. Index-based benefit terms cannot be greater than one year. This should be interpreted consistently when a separate index- based benefit guarantee is made on each premium received.

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3. The appointed actuary has demonstrated at time of filing or in conjunction with a change to a Type 2a Method, to the satisfaction of the regulatory officials in each state in which the insurer writes or reinsures equity indexed universal life insurance business, prior to the use of the CRVM with UAMV that the requirements in (1) and (2) above have been met.

Type 2 Methods

The use of a Type 2 method is not conditioned upon the requirement to meet the "Hedged as Required" criteria or the Type 2a Prerequisite Criteria. However, an insurer using a Type 2 method must provide a certification (Attachment 5) signed by the appointed actuary with each annual and quarterly statutory financial statement filed with the appropriate insurance regulatory official in each state in which the insurer writes or reinsures equity indexed universal life insurance business. This certification deals with the assumptions underlying the option market values included in the calculation of reserves using a Type 2 method and the consistency in assumptions between these option market values and the statement value of any options owned by the insurer to support the equity indexed universal life insurance business being valued.

Required Change in Method

In the event an insurer that is using a Type 1 computational method for a block of business fails to meet the applicable "Hedged as Required" criteria, the required actuarial certification must disclose this fact. If the reason for failing the "Hedged as Required" criteria is not corrected within one quarterly financial reporting period of the initial disclosure of the failure in the actuarial certification, the insurer must choose to use a Type 2a or a Type 2 computational method for determining minimum statutory formula reserves for this block of business.

If, at a later date, the insurer can demonstrate to the satisfaction of its domiciliary commissioner that it is meeting the applicable "Hedged as Required" criteria, the insurer may, with the approval of the domiciliary commissioner, resume using a Type 1 computational method. In addition, the insurer must notify the appropriate regulatory official in each state in which the insurer does business subject to the change in computational method.

Optional Change in Method

An insurer using either a Type 1, Type 2a or Type 2 computational method for a block of business may, with the approval of its domiciliary commissioner and after notifying the appropriate regulatory official in all the other states in which the insurer writes this block of business, use a computational method of another type. If the change in computational methods involves a change from a Type 2 or Type 2a computational method to a Type 1 computational method the request to the domiciliary commissioner for approval of the change in method must be accompanied with a demonstration of compliance with the applicable "Hedged as Required" criteria. If the change in computational methods involves a change from a Type 2 computational method to a Type 2a or Type 1 computational method, the request to the domiciliary commissioner for approval of the change in method must be accompanied with a demonstration of compliance with the "Type 2a Prerequisite Criteria" or the requirements specified in the section captioned "Type 1 Methods."

Asset Adequacy Testing of Reserves

To the extent required by law, regulation, or regulatory requirements, reserves established for equity indexed life policies must be tested for adequacy using appropriate methods and assumptions.

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Attachment 1
Description of Computational Methods

Implied Guaranteed Rate Method (IGRM)

To use this computational method, companies must satisfy the "Hedged as Required" criteria, which are set out in Attachment 2. On the asset side, options will be held in accordance with the rules of the NAIC Accounting and Procedures Manual.

The following describes how the IGRM works:

1. Issue date calculations:

   Calculate an implied guaranteed rate, determined at issue, for the period of the initial term equal to: (a) the guaranteed interest rate for the period of the initial term; plus (b) the accumulated option cost expressed as a percent of the policy value to which the indexed benefit is to be applied. The accumulated option cost, determined at issue, is the option cost, which will provide the index-based benefit in excess of any other interest rate guarantee for the initial term, accumulated to the end of the term at the appropriate maximum valuation rate. The option cost should be as of the issue date.

   Calculate an implied guaranteed rate, determined at issue, for the term after the first. The implied guaranteed rates for terms after the first term will be based on historical moving average option costs according to (3) below.

   Using the Universal Life Insurance Model Regulation, with the guaranteed interest rates equal to the implied guaranteed rates, calculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, and net premium for the policy based on guarantees at issue.

2. Valuation date calculations:

   Calculate the implied guaranteed rate for the current term based on the current term's index-based benefit and the option cost at the start of the current term that will provide the indexed benefit, in excess of any other interest rate guarantee, for the current term. The method of calculating the current term implied guaranteed rate is the same as for calculating the rate for the initial term. The implied guaranteed rate for terms after the current is not recalculated as long as neither the interest rate guarantee nor the index-based benefit guarantee have changed. (If guarantees have improved, then the new implied guaranteed rates for future terms will be based on option costs determined at issue according to (3) below.)

   Continue the calculation of the reserve according to the Universal Life Insurance Model Regulation. Use the recalculated current term implied guaranteed rate and the implied guaranteed rate for future terms as determined according to (3) below, when computing future guaranteed benefits at the valuation date. Do not recalculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, or net premium. This section should be interpreted consistently when a separate index-based benefit guarantee is made on each premium received.

   In determining reserves, the net premiums, as determined in Section 1 above, are payable over the period that benefits are projected to be available, but not beyond the end of the net premium payment period determined at issue.

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3. Index-based benefit guarantees beyond the current term should be handled as follows:

Calculate an implied guaranteed rate, determined at issue, for the terms after the current term equal to: (a) the guaranteed interest rate for the period of the term; plus (b) the accumulated option cost expressed as a percent of the policy value to which the indexed benefit is to be applied. The accumulated option cost is the historical moving average cost of the option whose term begins at the beginning of the term, which will provide the index-based benefit in excess of any other interest rate guarantee for the term, accumulated for the length of the term at the appropriate maximum valuation rate.

The historical moving average cost of the option will be calculated based on the averages over the sixty months previous to the calendar year of issue of each of the following items: (a) 3% plus the annualized daily actual index volatility as the estimated implied volatility for a one year European At-The-Money option, e.g. if the average index volatility is 15%, the implied volatility for the base case option cost is 18%; (b) index dividend rate; and (c) risk-free rate. The base case cost is for a one year European At-The–Money option and must be adjusted to the characteristics of the policy.

In those states that require, by regulation, that the policy valuation interest rates not exceed the "minimum guaranteed interest rate" in the policy, the "minimum guaranteed interest rate" for IGRM is the implied guaranteed rate.

Commissioners Reserve Valuation Method Updated Average Market Value (CRVM with UAMV)

To use this computational method, companies must satisfy the Type 2a Prerequisite Criteria. On the asset side, options will be held in accordance with the rules of the NAIC Accounting and Procedures Manual. Similarly, reinsurance reserve credit will be in accordance with the rules of the NAIC Accounting and Procedures Manual.

The following describes how the CRVM with UAMV works:

1. Issue date calculations:

Calculate an implied guaranteed rate, determined at issue, for the period of the initial term equal to: (a) the guaranteed interest rate for the period of the initial term; plus (b) the accumulated option cost expressed as a percent of the policy value to which the indexed benefit is to be applied. The accumulated option cost, determined at issue, is the option cost that will provide the index-based benefit in excess of any other interest rate guarantee for the initial term, accumulated to the end of the term at the appropriate maximum valuation rate. The option cost should be as of the issue date.

Calculate an implied guaranteed rate, determined at issue, for the terms after the first. The implied guaranteed rates for terms after the first term will be based on historical moving average option costs according to (3) below.

Using the Universal Life Insurance Model Regulation, with the guaranteed interest rates equal to the implied guaranteed rates, calculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, and net premium for the policy based on guarantees at issue.

2. Valuation date calculations:

When calculating the present value of future guaranteed policy benefits at the valuation date by projecting a fund equal to the greater of the Guaranteed Maturity Fund or the policy value, this fund should be projected to the end of the current term at the guaranteed interest rate and added to

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the accumulated option cost for the current term. The option cost should be determined as of the valuation date.

The option should provide for the index-based benefit in excess of any other interest rate guarantee for the current term based on a fund equal to the greater of the Guaranteed Maturity Fund or the policy value. The option cost should be accumulated to the end of the current term at the appropriate maximum valuation rate in accordance with the SVL.

This combined amount should then be projected forward using the implied guaranteed rates for future terms, as determined according to (3) below.

The implied guaranteed rates for terms after the current are recalculated on the valuation date. The implied guaranteed rates for future terms will be based on historical moving average option costs on the valuation date according to (3) below.

Do not recalculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, or net premium. This section should be interpreted consistently when a separate index-based benefit guarantee is made on each premium received.

In determining reserves, the net premiums, as determined in Section 4 above, are payable over the period that benefits are projected to be available, but not beyond the end of the net premium payment period determined at issue.

3. Index-based benefit guarantees beyond the current term should be handled as follows:

Calculate an implied guaranteed rate, determined either at issue or at a valuation date, for the terms after the current term equal to: (a) the guaranteed interest rate for the period of the term; plus (b) the accumulated option cost expressed as a percent of the policy value to which the indexed benefit is to be applied. The accumulated option cost is the historical moving average cost of the option whose term begins at the beginning of the term, which will provide the index-based benefit in excess of any other interest rate guarantee for the term, accumulated for the length of the term at the appropriate maximum valuation rate.

The historical moving average cost of the option will be set equal to the option cost calculated based on the averages of each of the following items over the sixty months previous to the calendar year of the determination date: (a) 3% plus the annualized daily actual index volatility as the estimated implied volatility for a one year European At-The-Money option, e.g. if the average index volatility is 15%, the implied volatility for the base case option cost is 18%; (b) index dividend rate; and (c) risk free rate. The base case cost is for a one year European At-The–Money option and must be adjusted to the characteristics of the policy.

In those states that require, by regulation, that the policy valuation interest rates not exceed the "minimum guaranteed interest rate" in the policy, the "minimum guaranteed interest rate" for CRVM with UAMV is the implied guaranteed rate.

CRVM with Updated Market Value (UMV) Method

CRVM with UMV applies the Universal Life Insurance Model Regulation to equity indexed life insurance policies using the following methods:

1. Issue date calculations:

When calculating the present value of future guaranteed policy benefits at issue by projecting fund values, the fund should be projected to the end of the initial term at the guaranteed interest rate and added to the accumulated option cost for the initial term. This combined amount should

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then be projected forward, using the policy guarantees to determine future death and endowment benefits. The option should provide for the indexed benefit in excess of any other interest rate guarantee for the initial term. The option cost should be as of the issue date. The option cost should be accumulated to the end of the initial term at the appropriate maximum valuation rate in accordance with the SVL. Any index-based benefit guarantees beyond the initial term should be determined as described in (3) below.

Using this method of determining the present value of future guaranteed benefits, calculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, and net premium for the policy based on guarantees at issue.

2. Valuation date calculations:

When calculating the present value of future guaranteed policy benefits at the valuation date by projecting a fund equal to the greater of the Guaranteed Maturity Fund or the policy value, this fund should be projected to the end of the current term at the guaranteed interest rate and added to the accumulated option cost for the current term. The option cost should be determined as of the valuation date. This combined amount should then be projected forward, using the policy guarantees to determine future death and endowment benefits. The option should provide for the index-based benefit in excess of any other interest rate guarantee for the current term, based on a fund equal to the greater of the Guaranteed Maturity Fund or the policy value. The option cost should be accumulated to the end of the current term at the appropriate maximum valuation rate in accordance with the SVL. Any index-based benefit guarantees beyond the current term should be treated as described in (3) below. Do not recalculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, or net premium. This section should be interpreted consistently when a separate index-based benefit guarantee is made on each premium received.

In determining reserves, the net premiums as determined in Section 1 above, are payable over the period that benefits are projected to be available, but not beyond the end of the net premium payment period determined at issue.

3. Index-based benefit guarantees beyond the current term should be handled as follows:

At the time of calculation, fund values projected to the end of the current term should be further projected to the end of the next term at the guaranteed interest rate. This should be added to the accumulated option cost for that term. This should be done successively for each subsequent term, using the appropriate option cost for each term. The option for each term should provide for the index-based benefit in excess of any other interest rate guarantee for the term. The cost for each option should recognize the current relevant economic condition on the calculation date and be priced as if the term began on that date. The option cost for each future term should be accumulated to the end of the term at the appropriate maximum valuation rate in accordance with the SVL.

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Attachment 2
Hedged as Required Criteria - Life Products

In order to use a Type 1 computational method, the appointed actuary needs to certify quarterly that it meets either the "Basic" or "Option Replication" criteria.

Basic

1. Required equivalence of characteristics between the option policies held and the options embedded in the policies for the current term with respect to specific policy features such as: index; averaging features; option type; strike price; term; etc.

2. The amount of hedge owned must substantially cover the greater of the account value or reserve. "Substantially" is measured by the guarantees in the specific policy (some policies may have longer term guarantees than others), and allows the company to assume no more than 6% per year of elective benefit decrements, unless the Commissioner agrees to a higher limit. Benefit decrements due to charges in the policy should be taken into account in the same way as they are in the indexed interest formula in the policy (i.e., if indexed interest is credited on an average fund value, then it is the projected average fund value on each policy which should be hedged.)

3. The company must have a specific plan for hedging risks associated with death benefits, early surrenders, unexpected premium payment patterns, and other potentialities. This plan must be available at issue and updated at every valuation date, or as often as the valuation actuary requirements may warrant.

4. The company must have a system in place that is used to monitor the effectiveness of its hedging strategy.

5. The company must have a stated maximum tolerance for differences between expected performance of the hedge and the actual results of the hedge.

Option Replication

1. Required equivalence of characteristics between the target of an option replication strategy employed and the options imbedded in the liabilities for the current term with respect to specific policy features such as: index; averaging features; option type; strike price; term; etc.

2. At the end of each quarter, the notional amount of the target of the option replication strategy must substantially cover the greater of the account value or reserve. "Substantially" is measured by the guarantees in the specific policy (some policies may have longer term guarantees than others), and allows the company to assume no more than 6% per year of elective benefit decrements, unless the Commissioner agrees to a higher limit. Benefit decrements due to charges in the policy should be taken into account in the same way as they are in the indexed interest formula in the policy, (i.e., if indexed interest is credited on an average fund value, then it is the projected average fund value on each policy which should be hedged.)

3. The company must have a specific plan for hedging risks associated with death benefits, early surrenders, unexpected premium payment patterns and other potentialities. This plan must be available at issue and updated at every valuation date, or as often as the valuation actuary requirements may warrant.

4. The company must have a system in place that is used to monitor the effectiveness of the company's hedging strategy.

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5. The company must have a stated maximum tolerance for differences between the expected performance of the hedge and the actual results of the hedge. The maximum tolerance test and compliance evaluation test must meet the following minimum requirements. The compliance evaluation criterion will be a retrospective correlation test performed at least on a weekly basis. The company will compare the change in the market value, from the beginning of the calendar quarter, of the hedge portfolio with the change in the market value of the target of the option replication strategy. The maximum dollar amount of difference permitted between these two changes is10% of the beginning of period market value of the target of the option replication strategy. If the difference exceeds this limit, the following steps must be taken:

   - If for a second time during a quarter the dollar amount of difference exceeds 10% of the beginning of period market value of the target of the option replication strategy, but is less than 25% of the beginning of period market value of the target of the option replication strategy, the company must notify the Commissioner in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy.

   - If at any of the weekly intervals the difference between the two changes exceeds 25% of the beginning of period market value of the target of the option replication strategy, the company must notify the Commissioner in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy and the impact on surplus of reporting the reserves based on CRVM with UMV, or CRVM with UAMV if the conditions for that method are satisfied.

   - If at any point in time during the quarter the difference between the two changes exceeds 35% of the beginning of period market value of target of the option replication strategy, the insurer is deemed to be out of compliance with the "Hedged as Required" criteria, and the company must notify the Commissioner in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy and the impact on surplus of reporting the reserves based on the CRVM with UMV, or CRVM with UAVM if the conditions for that method are satisfied.

The requirements discussed above deal with the situation in which the actual hedge underperforms relative to the expected hedge performance. The ability of an insurer to over-hedge may be constrained by other components of a state's regulatory framework including the state's investment article and regulations concerning the use of derivative instruments. For purposes of this Guideline, over-hedged mean that at a particular point in time, the hedge portfolio exceeds the portfolio of liabilities being hedged. If over-hedged, the excess hedging instruments are excluded from the measurements required in Item 5 of the Hedged as Required Criteria.

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Attachment 3
Reasonableness of Assumptions Certification for Implied Guaranteed Rate Method

The following certification must be filed in conjunction with each quarterly and annual statutory financial statement filed with the appropriate regulatory official in each state in which the insurer does business. The appointed actuary must sign the certification.

I, (state name and professional designation) am the appointed actuary for (company name). The company meets the Hedged as Required criteria for policies reserved under the Implied Guarantee Rate Method. I have reviewed the assumptions underlying the values assigned to all equity index options used in the determination of the implied guaranteed rate used in the calculation of reserves under the Implied Guaranteed Rate Method for all equity indexed universal life insurance policies issued or reinsured by (company name) and reported in the statutory financial statement as of (the date of valuation).

The assumptions at the start of the current term used to determine such option values for the current term are:

1. Reasonable in light of current relevant economic conditions at the start of the current term; and
2. Consistent with the comparable assumptions used to determine the statement of value of any derivative instruments as of the valuation date used to hedge the equity index-based obligations embedded in the equity indexed life policies subject to this certification.

The assumptions at issue used to determine equity index option values for terms subsequent to the current term are:

1. Determined in accordance with the Implied Guaranteed Rate Method
2. Based on quantitative data for the base case option (1-year European At-The-Money) of 3% plus ___._% average annualized daily actual volatility over the 60 months previous to the calendar year of issue.
3. Reasonably adjusted to reflect the following variances from the base case due to benefit design and capital market reasons (all material adjustments should be listed)
   a. skew adjustment
   b. _____(to be described by appointed actuary)
4. Reliant on the following source(s) for assumptions not prescribed by this Actuarial Guideline:
   a. _____(to be described by appointed actuary)

_____
(Name of actuary)

_____
(Signature of actuary)

_____
(Date of certification)

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Attachment 4
Reasonableness and Consistency of Assumptions Certification for Commissioners Reserve Valuation Method with Updated Average Market Value

The following certification must be filed in conjunction with each quarterly and annual statutory financial statement filed with the appropriate regulatory official in each state in which the insurer does business. The appointed actuary must sign the certification.

I, (state name and professional designation) am the appointed actuary for (company name). I have reviewed the assumptions underlying the values assigned to all equity index options used in the determination of statutory reserves using a Type 2a computational method for all equity indexed universal life insurance policies issued or reinsured by (company name) insurance company and reported in the statutory financial statement as of (the date of valuation).

The assumptions used to determine such option values for the current term are:

1. Reasonable in light of current relevant economic conditions as of the date of valuation; and
2. Consistent with the comparable assumptions used to determine the statement of value of any derivative instruments as of the valuation date used to hedge the equity index-based obligations embedded in the equity indexed life policies subject to this certification.

The assumptions used to determine equity index option values for terms subsequent to the current term are:

1. Determined in accordance with the Commissioners Reserve Valuation Method with Updated Average Market Value
2. Based on quantitative data for the base case option (1-year European At-The-Money) of 3% plus ___._% 60 -month moving average annualized daily actual volatility
3. Reasonably adjusted to reflect the following variances from the base case due to benefit design and capital market reasons (all material adjustments should be listed)
   a. skew adjustments
   b. _____(to be described by appointed actuary)
4. Reliance on the following source(s) for assumptions not prescribed by this Actuarial Guideline:
   a. _____(to be described by appointed actuary)

_____
(Name of actuary)

_____
(Signature of actuary)

_____
(Date of certification)

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Attachment 5
Reasonableness and Consistency of Assumptions Certification for Commissioners Reserve Valuation Method with Updated Market Value

The following certification must be filed in conjunction with each quarterly and annual statutory financial statement filed with the appropriate regulatory official in each state in which the insurer does business. The appointed actuary must sign the certification.

I, (state name and professional designation) am the appointed actuary for (company name). I have reviewed the assumptions underlying the values assigned to all equity index options used in the determination of statutory reserves using a Type 2 computational method for all equity indexed universal life insurance policies issued or reinsured by (company name) insurance company and reported in the statutory financial statement as of (the date of valuation). The assumptions used to determine such option values are:

1. Reasonable in light of current relevant economic conditions as of the date of valuation; and
2. Consistent with the comparable assumptions used to determine the statement of value of any derivative instruments as of the valuation date used to hedge the equity index-based obligations embedded in the equity indexed life policies subject to this certification.

_____

(Name of actuary)

_____

(Signature of actuary)

_____

(Date of certification)

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Actuarial Guideline XXXVII

VARIABLE LIFE INSURANCE RESERVES FOR GUARANTEED MINIMUM DEATH BENEFITS

Background

This guideline's primary focus is to clarify the appropriate projection assumptions and methodologies used to determine statutory reserve liabilities for Guaranteed Minimum Death Benefits (GMDBs) offered with variable life insurance products.

For many years, insurance companies have not applied uniform reserve standards to variable life insurance policies in general, and to GMDBs in particular. Four regulatory sources are often looked to for guidance. First, the Standard Valuation Law (SVL) requires that CRVM be based on the present value of future guaranteed benefits. Second, the Variable Life Insurance Model Regulation as revised in 1983 and again in 1989 states "Reserve liabilities for variable life insurance policies shall be established under [SVL] in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees." Third is the Universal Life Insurance Model Regulation and most recently the Valuation of Life Insurance Policies Model Regulation.

GMDBs are common features of variable life products. Recently, reserve methods for universal life secondary guarantees have been clarified in the Valuation of Life Insurance Policies Model Regulation. These secondary guarantees are similar to GMDBs offered with variable life policies. A Guaranteed Minimum Death Benefit is any guarantee which provides death benefit protection which would not otherwise be provided in the absence of such a guaranteed benefit or provision. An example of a GMDB is a policy in which death benefits continue in-force even if the policy value is zero. This benefit may be contingent on additional qualifications being met, such as cumulative premiums meeting some limit.

Additional examples of GMDBs are provided below. This list is not intended to include all types of GMDBs.

- A Minimum Death Benefit Provision or No Lapse provision where death benefits are guaranteed to remain in-force for a period of time even if the policy value is not greater than zero subject only to certain conditions being met such as cumulative premiums meeting a minimum amount, or if a theoretical policy value is sufficient to meet a minimum amount.
- Death Benefits that are guaranteed to be at least as large as the original face amount, regardless of investment performance which might generate negative Paid Up Additions on a traditional fixed premium variable life insurance policy.

The Variable Life Insurance Model Regulation defines the reserve methodology for variable life policies. However, currently two versions of the model regulation exist and this results in inconsistent treatment by states. These two versions include the 1983 revisions and the 1989 revisions to the model regulation. Many states have not passed either revision and therefore require direct interpretation of SVL. In practice, companies have interpreted these regulations inconsistently with regard to assumptions and/or application to current products available today. The 1983 version of the regulation treats flexible premium policies differently than scheduled premium policies. The 1983 version of the regulation did not anticipate the types of GMDBs available today which require contingent conditions to be met to maintain a death benefit guarantee, for instance specified premiums must be paid. Thus, confusion exists with regard to which valuation method is appropriate. The 1989 version makes no distinction between the scheduled premium and flexible premium policies.

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This Guideline codifies the basic interpretation of reserve liabilities for variable life GMDBs by clarifying the projection assumptions and methodologies that comply with the SVL. Minimum valuation standards that may be used to determine this reserve and are not specifically addressed in this guideline are defined by SVL and other applicable state regulations. This guideline focuses on the methodology of the 1989 revisions to interpret SVL, as we believe the 1989 revision more appropriately considers the types of products and GMDBs available today.

Interpretations of both the 1983 and 1989 versions reflect the comments made in the December 1972 report which concluded that an acceptable GMDB reserve system should have the following characteristics:

1. The GMDB reserve should be held in the general account of the company to the extent that it will be backed by the general assets of the company, most of which are debt obligations valued at amortized cost and, therefore, are of a fixed dollar nature. It would not be proper to hold the GMDB reserve in the separate account, assuming the reserve is not supported by fixed dollar assets but by assets that are moving in the opposite direction from the risk, i.e. value moving downward while the risk increases and vice versa.

2. The GMDB reserve should be adequate to cover the GMDB death claims for the next year in all but the most extreme circumstances so that the regulatory authorities can be assured the company will not run into financial trouble from this source before the next annual statement is filed.

3. The GMDB reserve should react slowly but steadily through an extended period of poor investment experience of the separate account.

4. The GMDB reserve should not cause unnecessary fluctuations in surplus by increasing too rapidly in a sharp market downswing. Also, the reserve should not decrease too rapidly in a sharp market upswing after a period of poor market performance.

This guideline maintains the four principles above in interpreting the Standard Valuation Law as it relates to variable life business and the methods defined in both the 1983 and 1989 versions of the Variable Life Insurance Model Regulation.

Reserve methodologies which recognize the variable nature of GMDB are defined in the Variable Life Insurance Model Regulation and include a One-Year Term reserve recognizing a 1/3 drop in separate account assets, the Attained Age Level Reserve (AALR) methodology and in the 1983 version, a methodology for flexible premium policies. Reserves for GMDBs are held in the general account.

This guideline recognizes the following principles when determining appropriate reserves for GMDB.

- Determine the guaranteed death benefits which are not valued in the basic policy reserves.
- Establish a reserve for these benefits over the period of time in which revenue is collected to pay for such benefits; however, no greater than the period of time these guaranteed benefits are provided.
- Collected revenue should not be de-minimus in order to reduce the reserve.
- The reserve established is in addition to basic reserves

This guideline interprets the standards for applying these methodologies. This guideline also interprets the projection assumptions to be applied to determine excess guaranteed death benefits. The guideline clarifies the use of the AALR methodology for flexible premium variable life policies with contingent

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GMDB benefit structures similar to specified premium contracts. This guideline is based on the belief that the 1983 revisions did not anticipate these types of GMDB benefits on flexible premium contracts. Thus, it makes sense to interpret the 1983 revisions for these types of GMDB benefits by applying the AALR methodology when there is a contingent GMDB structure. For flexible premium plans with other types of GMDBs, the flexible premium language of the 1983 revision is used where applicable.

The AALR methodology, along with the one-year term reserve is generally consistent with the principles above in that additional reserves are established in recognition of all death benefit guarantees not reflected in basic reserves. If multiple guarantees exist all guarantees must be valued and the greatest additional reserve is held. Consecutive GMDBs are treated as a single guarantee. These reserves are funded over the period of time GMDB Revenue will be collected through either policy charges or premiums, however, not to exceed the GMDB benefit period. The AALR methodology funds any GMDB Revenue deficiency over the period of time the Revenue is collected, however, no longer than the end of the guarantee period.

GMDB reserves are held in addition to basic reserves unless the appointed actuary provides satisfactory documentation to the state of domicile insurance department stating why such reserves are redundant. For example, for traditional variable life product designs where reserves are generally determined on a tabular basis and use an assumed interest rate (AIR), if basic reserves are determined based on at least the guaranteed face amount, (i.e. ignoring any negative additions) then the guaranteed death benefit is fully reflected in the basic reserves; therefore, an additional GMDB reserve is redundant. Neither this guideline nor the 1989 amendments specifically address traditional variable life product designs, nor does this guideline specifically exclude these designs from its scope.

An additional purpose of this guideline is to emphasize the impact of Sections 3A(3) and 3A(4) in the Valuation of Life Insurance Policies Model Regulation ("XXX") relative to reserving for variable life and variable universal life products.

Scope

The guideline applies to all variable life insurance contracts to which the Standard Valuation Law applies and which provide Guaranteed Minimum Death Benefits (GMDBs) either explicitly or implicitly.

Definitions

Attained age level reserve (AALR): The AALR is a methodology described in the 1983 and 1989 revisions to the Variable Life Insurance Model Regulation.

Catch-up provision: A Catch-up provision is a provision in the policy that gives the policyholder the right to catch up on any contingent requirements in order to maintain the GMDB.

Guaranteed Period: The guaranteed period is the period of time over which a GMDB is guaranteed regardless of the basic guarantees in the policy. A policy may have multiple guaranteed periods and GMDBs.

Guaranteed Minimum Death Benefit (GMDB): A Guaranteed Minimum Death Benefit (GMDB) is any guarantee which provides continued death benefit protection which would not otherwise be provided in the absence of such a guaranteed benefit or provision. A policy may have multiple GMDBs.

One-Year Term (OYT) reserve: The OYT reserve covers a period of no more than one year following a 1/3-asset drop. This reserve is fully described in the 1989 revision to the Variable Life Insurance Model Regulation. This guideline clarifies the methodology and the assumptions used to determine OYT reserves.

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Policy Value: Policy value means, as of the valuation date, the greater of (a) zero and (b) the amount to which separately identified interest credits and/or investment return and mortality, expense, or other charges are made under a variable life insurance policy. Subsequent to the valuation date, "policy value" means the amount determined in accordance with the procedures specified in this guideline.

Projection Assumptions: The Projection Assumptions are used to determine guaranteed death benefits. This projection of policy values uses the following assumptions:

1. Cost of insurance rates are equal to the minimum valuation mortality.

2. The GMDB is assumed to be in effect for the maximum period of the GMDB. All minimum requirements necessary to maintain the GMDB in force subsequent to the valuation date are assumed to be met at the latest point in time sufficient to maintain the GMDB through its maximum period. Contingent requirements, if any, required to reinstate or cash-up as of the valuation date are assumed to occur on the valuation date. If the GMDB would continue in effect subsequent to the valuation date with no additional actions required, contingent requirements are assumed not to resume until the latest point in time which would prevent the termination of the GMDB.

3. The general account policy values and separate account policy values are projected at the valuation interest rate. The assumed investment rate, if any, is used when determining the OYT reserve.

4. The guaranteed period covered is determined assuming all contingent requirements are met.

5. Policy options and benefits are assumed to continue unchanged as of the valuation date. Examples include fixed and variable account allocation and the death benefit option.

6. The projection of policy values is made for the entire guarantee period, regardless of whether projected policy values are positive or negative at any point in the projection. Any negative policy value would be set to zero.

The policy value is projected forward from the valuation date with valuation interest rate credits, any payments required to maintain the guarantee and valuation mortality charges (and no other credits or charges). The Guideline stipulates that "A death benefit in the absence of the guarantee is assumed to be provided as long as the projected policy value is greater than zero," and "Any negative policy value would be set to zero." An AALR need not be established for a VUL policy to provide for any period during which there would be a death benefit in the absence of the guarantee, since this benefit would be provided for by the policy's basic reserve. This means that for an AALR to develop, the mortality charges must exceed the required payments plus interest credits by enough to reduce the policy value to zero during the guarantee period. Surrender charges are not relevant to this determination.

GMDB Revenue: GMDB Revenue is policy charges or premium, either implicit or explicit. These charges or premiums may or may not be explicitly stated to cover GMDB benefits. An example of an implicit premium is a positive premium necessary to maintain a target policy value in order to maintain benefits.

Term cost: Term costs are based on the guaranteed minimum death benefits in excess of the death benefits that would be provided in absence of such guarantee based on a projection of policy values using the Projection Assumptions defined above. These costs are then discounted to the valuation date. The term costs are based on minimum valuation mortality standards and a discount rate not to exceed the maximum valuation interest rate.

1/3-Asset Drop: A 1/3 reduction in separate account assets that is used in the calculation of the one-year term reserve. This 1/3 drop is not applied to fixed account assets.

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Text

1. Basic Reserves:

Basic Reserves include the reserve held for death benefits provided in the absence of a GMDB. Reserve liabilities for variable life insurance policies shall be established consistent with the methodologies described in the Standard Valuation Law and in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees. Reserve methods described in the Variable Life Insurance Model Regulation and the Universal Life Insurance Model Regulation may be appropriately utilized to determine reserve liabilities such that application of these methods is consistent with the principles of the Standard Valuation Law.

2. Guaranteed Minimum Death Benefit Reserves:

Additional reserves are required to provide for liabilities of GMDB provisions which provide benefits that would not be provided in the absence of the guarantee. In measuring these liabilities, the basic reserve provides for death benefits which occur in the absence of the guarantee. GMDB reserves provide for the contingency of death occurring when the guaranteed minimum death benefit exceeds the death benefit that would be paid in absence of the guarantee. A consistent reserve methodology should be used regardless of whether a contract has scheduled premiums or flexible premiums.

When a contract provides multiple GMDBs and/or multiple guarantee periods, a reserve is established based on the guaranteed period which produces the greatest reserve as of the valuation date. Consecutive GMDBs are treated as a single guarantee period. The reserve methodology reflects all potential guarantee periods assuming that contingent requirements are met such as: contingent premiums paid, Catch-up Provisions or any pre-funding of contingent requirements.

For a policy under the 1989 revisions or a flexible premium policy with contingent GMDBs similar to a specified premium contract under the 1983 revisions, the GMDB reserve equals the greater of (1) and (2) where (1) equals "the aggregate total of term costs" (OYT) which covers a period of no more than one year following a 1/3-asset drop, and (2) equals the AALR as described below.

For a flexible premium policy under the 1983 revisions not covered above, (where the GMDB guarantee is not contingent on any policyholder requirement), reserve liabilities for any guaranteed minimum death benefit shall be maintained in the general account of the insurer and shall be not less than the aggregate total of the term costs, if any, covering the period provided for in the guarantee not otherwise provided for by the reserves held in the separate account assuming a 1/3-asset drop, projected at the valuation interest rate.

a) One Year Term Reserves (OYT):

This reserve component equals the "aggregate total of term costs", if any, covering a period of one full year from the valuation date, or, if less, covering the period of time death benefits are provided which are not otherwise provided for by the basic reserves. This reserve assumes any contingent requirements to maintain the GMDB are met by reflecting any Catch-up Provisions or any pre-funding of contingent requirements.

"Aggregate total term costs" equals the present value of guaranteed minimum death benefits in excess of death benefits that would be provided in absence of such guarantee, if any, prior to the end of one full year or the end of the guaranteed period if sooner. A death benefit in the absence of the guarantee is assumed to be provided as long as the projected policy value is greater than zero. Death benefits are determined by projecting the policy value following a 1/3-asset drop and using the Projection Assumptions defined

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above. Present values are determined using valuation mortality rates and the maximum valuation interest rate.

b) Attained Age Level Reserves (AALR):

This reserve component allows for funding GMDBs over no longer than the guaranteed period. This reserve assumes contingent requirements are met to maintain the GMDB and reflect any prepaid contingent requirements or Catch-up provisions. A death benefit in the absence of the guarantee is assumed to be provided as long as the projected policy value is greater than zero. This reserve component exists until no later than the end of the guarantee period if, on any prior valuation date, projected policy values resulted in guaranteed minimum death benefits in excess of death benefits that would be provided in absence of such guarantee. To the extent long term favorable investment performance results in redundant reserves, the valuation actuary may request permission from the state of domicile insurance department to release all or a portion of the redundant GMDB reserves. This projection of policy value is based on the Projection Assumptions defined above and does not incorporate a 1/3-asset drop.

The AALR reserve component shall not be less than zero and shall equal the "residue," as described in paragraph (1) below, of the prior year's AALR on the contract, with any such "residue," increased or decreased by a "payment" computed on an attained age basis as described in paragraph (2) below.

(1) The "residue" of the prior year's AALR on each variable life insurance contract shall not be less than zero and shall be determined by adding interest at the maximum valuation interest rate to each prior year's reserve, deducting the tabular claims based on the "excess", if any, of the guaranteed minimum death benefit over the death benefit that would be payable in absence of such guarantee, and dividing the result by the tabular probability of survival. Hence, tabular costs are only deducted for years where, in the absence of the guarantee, coverage would be less than the guaranteed coverage.

(2) The "payment" used to increase or decrease the "residue" above shall be computed so that the present value of a level payment of that amount each year over the future period for which GMDB Revenue will be collected under the contract is equal to (A) minus (B) minus (C), where, (A) is the present value of future guaranteed minimum death benefits. The future guaranteed minimum death benefits are the projected future death benefits including the GMDB. (B) is the present value of the projected future death benefits that would be payable in the absence of the GMDB. The guaranteed benefit for (A) and (B) should be calculated for the life of the policy. Both (A) and (B) are calculated based on the Projection Assumptions. (C) is any "residue," as described in paragraph (1) above, of the prior year's AALR on such variable contract. Minimum standards of valuation mortality assumptions and maximum valuation interest rates are used to determine present values and net level payments. The period of time in which GMDB Revenue will be collected is limited to the period of time policy values are sufficient to collect policy charges or the period of time contingent requirements will be paid to maintain the GMDB. In no event will the time period be greater than the time to the end of the guarantee period. It should also be noted that the "payment" may be negative resulting in the reserve running off over the remaining guarantee period.

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c) Other Flexible Premium Policies under the 1983 revisions not included above:

The present value of potential guaranteed minimum death benefits in excess of death benefits that would be provided in absence of such guarantee is determined by using minimum standards of valuation mortality assumptions and maximum valuation interest rates.

3. Issues:

Sections 3A(3) and 3A(4) of "XXX" state the following:

3A(3): This regulation shall not apply to any variable life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts.

3A(4): This regulation shall not apply to any variable universal life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts.

The language of these sections is clear. The reserving for variable life and variable universal life is in no way affected by the provisions of "XXX." In particular, the 19-year select factors and the "X" factor are not applicable to the calculation of reserves for variable life and variable universal life products.

Effective Date

This guideline affects all variable life insurance contracts issued. Where the application of this Guideline produces higher reserves than the company had otherwise established by their previously used interpretation, such company must comply with this guideline effective December 31, 2001. However, such company may request a graded in period, not to exceed three (3) years, from the domiciliary Commissioner upon satisfactory demonstration of the previous interpretation and that such delay of implementation will not cause a hazardous financial condition or potential harm to its policyholders.

Retroactive application of the guideline to in-force policies to develop the current residue portion of the AALR will generally not be feasible. Therefore, the residue as of 12/31/2000 should be set equal to the greater of the amount established by the company under its current method or $0 if the company did not previously calculate an AALR.

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Actuarial Guideline XXXVIII

THE APPLICATION OF THE VALUATION OF LIFE INSURANCE POLICIES MODEL REGULATION

Introduction

The revised version of the *Valuation of Life Insurance Policies Model Regulation* (Model #830) was adopted by the NAIC in March 1999. Since that date, some questions have been raised regarding whether and how Model #830 applies to various product designs. The purpose of this guideline is to provide direction as to the application of Model #830 to such products. Specifically, this guideline provides examples of various policy features that constitute "guarantees" and gives directions on how to reserve for these guarantees in accordance with Model #830.

Obviously, new policy designs will emerge subsequent to the development of this document. No statute, regulation, or guideline can anticipate every future product design, and common sense and professional responsibility are needed to assure compliance with both the letter and the spirit of the law. While Model #830 is a complex regulation, its intent is clear: reserves need to be established for the guarantees provided by a policy. Policy designs which are created to simply disguise those guarantees or exploit a perceived loophole must be reserved in a manner similar to more typical designs with similar guarantees.

Text

The following product designs have been brought to the attention of the NAIC Life Actuarial (A) Task Force. The list below specifies reserving approaches which the Task Force regards as being most consistent with the letter and spirit of Model #830. However, the specified reserving approaches should be modified as needed to comply with the intent of this guideline that similar reserves be established for policy designs that contain similar guarantees.

1. An initial level premium rate is guaranteed for 10 years followed by increased guaranteed premiums for an additional 20 years. However, the company cannot increase premiums after year 10 (i.e., the initial premium continues to be charged) unless some specified event occurs.

   The initial reserve segment is 30 years. Since the contract contains provisions that limit the company's ability to increase premiums, then the initial premium should be treated as guaranteed for the entire 30-year period. It would be contrary to the conservative nature of statutory accounting to treat this policy the same as one in which the ability to raise premiums is unrestricted.

2. A term policy has an illustrated level premium for 30 years, the first 10 of which are guaranteed. Additionally, there is a refund option which provides that a specified refund will be paid if the premium ever increases. The refund must be requested within a limited time (e.g., 30 days) of receiving notice of the increase. Coverage terminates if the option is exercised.

   This example differs from the one above in that there is no specified event that has to occur in order for the company to impose a premium increase; however, the company must provide an additional benefit to the policyholder if it exercises this right. Thus the company does not have an unrestricted right to impose an increase after 10 years. If the contract contains provisions that require that additional benefits be provided to the policyholder in the event of a premium increase, even if these benefits are lost if not claimed within a stated time frame, then the initial premiums should be treated as guaranteed for the entire 30 year period. It would be contrary to the conservative nature of statutory accounting to treat this policy the same as one in which the

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ability to raise premiums does not require that additional benefits be provided. Therefore, the initial segment for this policy is 30 years.

3. An initial level premium rate is guaranteed for 10 years followed by increased guaranteed premiums for an additional 20 years. However, after year 10 the policyholder is protected against premiums being increased above the initial level, with the protection provided by a second company through either reinsurance, a second policy issued to the consumer, or an agreement between the companies.

   The combined reserves of the direct writer and the second company should be no less than the amount which the direct writer would hold if (a) there were no second company and (b) the initial reserve segment were 30 years. If this condition is not met, reserve credits for the direct writer should be disallowed. The reserve held by the direct writer should be based on the initial level premium being guaranteed for 30 years.

4. A product has relatively high gross premiums but with a guaranteed dividend or guaranteed refund schedule, or by some other means guarantees a low net cost to the policyholder.

   The net amount of premium (i.e., gross premium less dividends or refunds) should be used in the reserve calculation. That represents the amount the insured actually pays for coverage.

   For products reinsured on either a coinsurance or modified coinsurance basis, the reinsurer's reserve calculation should also be based on the net premium (i.e., gross premiums less dividends or refunds guaranteed to be paid to the policyholder).

5. a) A re-entry term product has an initial rate guaranteed for 10 years, with loose or non-existent re-entry underwriting, allowing the policyholder to re-enter for an additional 20 years at specified favorable rates.

   b) A universal life policy has provisions such that, if the UL policy lapses prior to the 10th policy anniversary because the actual accumulation value (or cash value, depending on design) falls below zero but stipulated premiums have been paid, a substitute policy is guaranteed to be issued providing the same amount of insurance coverage at the same stipulated premium for the remainder of the 10-year period plus an additional 20 years.

   The reentry periods and premiums should be treated as a continuation of the initial guarantees for reserve calculation purposes. The initial reserve segment applicable to the original policy should be 30 years if the stipulated premium for the substitute policy is not high enough to trigger a new reserve segment. When the substitute policy is issued, reserves should be determined as if the coverage had been issued at the issue age and issue date of the original policy. Effectively, the company has guaranteed coverage for 30 years at the time the initial policy is issued, and the reserves established should reflect that guarantee.

6. A reinsurance treaty provides for 30 years of level premiums on a current scale but directly guarantees those premiums for only the first 10 years. However, if the reinsurer increases the premiums after 10 years, the reinsurer agrees to increase the expense allowance such that the net payments (premium minus allowance) by the direct writer remains unchanged.

   Relative to the reinsurer's reserve calculation, the initial reserve segment should be 30 years and the valuation premium should be level over that period. In this instance, the additional "expense allowance" has no relationship to the expenses actually incurred by the direct writer in administering the reinsured policies. Although a bona fide expense allowance would typically not be considered in determining the valuation premiums and reserve segments, in this instance the

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additional "expense allowance" has no relationship to the expenses actually incurred by the direct writer in administering the reinsured policies."

7. A universal life policy has a cumulative "premium catch-up provision" in which the coverage is guaranteed to remain in force as long as a stipulated premium is paid each year, and if the insured is paying less than is required to maintain the guarantee, there is an unlimited right to make up past premium deficiencies.

Model #830 requires that "when a policy contains more than one secondary guarantee, the minimum reserve shall be the greatest of the respective minimum reserves at that valuation date of each unexpired secondary guarantee, ignoring all other secondary guarantees." Since secondary guarantees with "catch-up" provisions are capable of being reinstated up to the end of the secondary guarantee period, they constitute "unexpired secondary guarantees" which must be incorporated into the calculation of "the greatest of the respective minimum reserves at that valuation date of each unexpired secondary guarantee, ignoring all other secondary guarantees."

The basic and deficiency reserves for a secondary guarantee with a catch-up provision should be computed as if the stipulated premium requirement had been met. The basic reserve shall be reduced by the product of (a) the "catch-up amount," if any, which would be required on the valuation date and (b) the ratio of the "initial" (i.e., before adjustment) basic reserve to the sum of the "initial" basic and deficiency reserves. In no event shall the "reduced" basic reserve be reduced below zero. The deficiency reserve shall be reduced by the product of (a) the "catch-up amount," if any, which would be required on the valuation date and (b) the ratio of the "initial" deficiency reserve to the sum of the "initial" basic and deficiency reserves. In no event shall the "reduced" deficiency reserve be reduced below zero.

If a universal life policy with a "premium catch up provision" has a shadow account below the level necessary to maintain the secondary guarantee, then the reserve for the secondary guarantee shall be valued according to this example. The basic and deficiency reserves, before deduction for the catch-up amount, shall be calculated as specified in Section 8A, Section 8B, Section 8C or Section 8E, as applicable.

8A. For policies and certificates issued prior to July 1, 2005: A universal life policy guarantees the coverage to remain in force as long as the accumulation of premiums paid satisfies the secondary guarantee requirement.

First, the minimum gross premiums (determined at issue) that will satisfy the secondary guarantee requirement must be derived.

Second, for purposes of applying Sections 7B and 7C of Model #830, the "specified premiums" are the minimum gross premiums derived in "Step One."

Third, a determination should be made of the amount of actual premium payments in excess of the minimum gross premiums. For policies utilizing shadow accounts, this will be the amount of the shadow account. For policies with no shadow accounts but which specify cumulative premium requirements, this excess will be the amount of the cumulative premiums paid in excess of the cumulative premium requirements; the cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee).

Fourth, a determination should be made of the single payment necessary at the valuation date to fully fund the remaining secondary guarantee assuming that the minimum gross premiums have been paid, up through the valuation date, during the secondary guarantee period. The result from "Step Three" should be divided by this number.

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Fifth, compute the net single premium on the valuation date for the coverage provided by the secondary guarantee for the remainder of the secondary guarantee period, using any valuation table and select factors authorized in Section 5A of Model #830.

Sixth, the "net amount of additional premiums" is determined by multiplying the ratio from "Step Four" by the difference between the net single premium from "Step Five" and the basic and deficiency reserve, if any, computed in "Step Two."

Seventh, a "reduced deficiency reserve" should be computed by multiplying the deficiency reserve, if any, by the one minus the ratio from "Step Four," but not less than zero. This "reduced deficiency reserve" is the deficiency reserve to be used for purposes of Section 7D(1) of Model #830.

Eighth, the actual reserve used for purposes of Section 7D(1) of Model #830 is the lesser of: (1) the net single premium from "Step Five," and (2) the amount of the excess from "Step Six" plus the basic reserve and the deficiency reserve, if any, computed in "Step Two." Reduce this result by the applicable policy surrender charges, i.e., the account value less the cash surrender value. If the resulting amount is less than the sum of the basic and deficiency reserves from Step Two, then the basic and deficiency reserves to be used for the purposes of Section 7D(1) are those calculated in Step Two, and no further calculation is required.

Ninth, an "increased basic reserve" should be computed by subtracting the "reduced deficiency reserve" in "Step Seven" from the reserve computed in "Step Eight." This "increased basic reserve" is the basic reserve to be used for purposes of Section 7D(1) of Model #830.

8B. For policies and certificates issued on or after July 1, 2005 and on or prior to December 31, 2006: A universal life policy guarantees the coverage to remain in force as long as the accumulation of premiums paid satisfies the secondary guarantee requirement.

First, the minimum gross premiums (determined at issue) that will satisfy the secondary guarantee requirement must be derived.

Second, for purposes of applying Sections 7B and 7C of Model #830, the "specified premiums" are the minimum gross premiums derived in "Step One." Consistent with Model #830, the remaining steps in this guideline should be calculated on a segmented basis, using the segments that Model #830 defines for the product. Therefore, in the remaining steps, the term "fully fund the guarantee" should be interpreted to mean fully funding the guarantee to the end of each possible segment. The term "remainder of the secondary guarantee period" should be interpreted to mean the remainder of each possible segment. The total reserve should equal the greatest of all possible segmented reserves.

Third, a determination should be made of the amount of actual premium payments in excess of the minimum gross premiums. For policies utilizing shadow accounts, this will be the amount of the shadow account. For policies with no shadow accounts but which specify cumulative premium requirements, this excess will be the amount of the cumulative premiums paid in excess of the cumulative premium requirements; the cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee).

Fourth, as of the valuation date for the policy being valued, for policies utilizing shadow accounts, determine the minimum amount of shadow account required to fully fund the guarantee. For policies with no shadow accounts but which specify cumulative premium requirements, determine the amount of the cumulative premiums paid in excess of the cumulative

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premium requirements that would result in no future premium requirements to fully fund the guarantee; the cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee). For any policy for which the secondary guarantee can not be fully funded in advance, solve for the minimum sum of any possible excess funding (either the amount in the shadow account or excess cumulative premium payments depending on the product design) and the present value of future premiums (using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves) that would fully fund the guarantee. The amount determined above for this step is to then be divided by one minus a 7% premium load allowance (0.93). The result from "Step Three" should be divided by this number, with the resulting ratio capped at 1. The ratio is intended to measure the level of prefunding for a secondary guarantee which is used to establish reserves. Assumptions within the numerator and denominator of the ratio therefore must be consistent in order to appropriately reflect the level of prefunding. The denominator is allowed to be inconsistent only by the amount of the premium load allowance as defined in this step. As used here, "assumptions" include any factor or value, whether assumed or known, which is used to calculate the numerator or denominator of the ratio.

[DRAFTING NOTE: The 7% premium load allowance approximates an average premium load level as evidenced by policies currently sold in the market. Rather than have the funding ratio vary according to the actual policy loads (which can fluctuate greatly by company and product), all companies will use an identical premium load allowance at a level approximately equal to the current industry average.]

Fifth, compute the net single premium on the valuation date for the coverage provided by the secondary guarantee for the remainder of the secondary guarantee period, using any valuation table and select factors authorized in Section 5A of Model #830.

Sixth, the "net amount of additional premiums" is determined by multiplying the ratio from "Step Four" by the difference between the net single premium from "Step Five" and the basic and deficiency reserve, if any, computed in "Step Two."

Seventh, a "reduced deficiency reserve" should be computed by multiplying the deficiency reserve, if any, by the one minus the ratio from "Step Four," but not less than zero. This "reduced deficiency reserve" is the deficiency reserve to be used for purposes of Section 7D(1) of Model #830.

Eighth, the actual reserve used for purposes of Section 7D(1) of Model #830 is the lesser of: (1) the net single premium from "Step Five," and (2) the amount of the excess from "Step Six" plus the basic reserve and the deficiency reserve, if any, computed in "Step Two." Reduce this result by the applicable policy surrender charges, i.e., the account value less the cash surrender value. Multiply this surrender charge by the ratio of the net level premium for the secondary guarantee period divided by the net level premium for whole life insurance. Calculate both net premiums using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves. However, if no future premiums are required to support the guarantee period being valued, there is no reduction for surrender charges. If the resulting amount is less than the sum of the basic and deficiency reserve from Step Two, then the basic and deficiency reserves to be used for the purposes of Section 7D(1) of Model #830 are those calculated in Step Two, and no further calculation is required.

Ninth, an "increased basic reserve" should be computed by subtracting the "reduced deficiency reserve" in "Step Seven" from the reserve computed in "Step Eight." This "increased basic reserve" is the basic reserve to be used for purposes of Section 7D(1) of Model #830.

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8C. For all policies and certificates issued on or after January 1, 2007 and on or prior to December 31, 2012: A universal life policy guarantees the coverage to remain in force as long as the accumulation of premiums paid satisfies the secondary guarantee requirement.

First, the minimum gross premiums (determined at issue) that will satisfy the secondary guarantee requirement must be derived.

Second, for purposes of applying Sections 7B and 7C of Model #830, the "specified premiums" are the minimum gross premiums derived in "Step One." Consistent with Model #830, the remaining steps in this guideline should be calculated on a segmented basis, using the segments that Model #830 defines for the product. Therefore, in the remaining steps, the term "fully fund the guarantee" should be interpreted to mean fully funding the guarantee to the end of each possible segment. The term "remainder of the secondary guarantee period" should be interpreted to mean the remainder of each possible segment. The total reserve should equal the greatest of all possible segmented reserves. Additionally, for purposes of applying Sections 7B and 7C of Model #830, a lapse rate of no more than 2% per year for the first 5 years, followed by no more than 1% per year to the policy anniversary specified in the following table based on issue age, and 0% per year thereafter may be used. If the duration in the table is less than 5, then a lapse rate of no more than 2% per year may be used through that duration, and 0% per year thereafter.

Issue Age	Duration
0-50	30th policy anniversary
51-60	Policy anniversary age 80
61-70	20th policy anniversary
71-89	Policy anniversary age 90
90 and over	No lapse

Third, a determination should be made of the amount of actual premium payments in excess of the minimum gross premiums. For policies utilizing shadow accounts, this will be the amount of the shadow account. For policies with no shadow accounts but which specify cumulative premium requirements, this excess will be the amount of the cumulative premiums paid in excess of the cumulative premium requirements; the cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee).

Fourth, as of the valuation date for the policy being valued, for policies utilizing shadow accounts, determine the minimum amount of shadow account required to fully fund the guarantee. For policies with no shadow accounts but which specify cumulative premium requirements, determine the amount of the cumulative premiums paid in excess of the cumulative premium requirements that would result in no future premium requirements to fully fund the guarantee; the cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee). For any policy for which the secondary guarantee can not be fully funded in advance, solve for the minimum sum of any possible excess funding (either the amount in the shadow account or excess cumulative premium payments depending on the product design) and the present value of future premiums (using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves) that would fully fund the guarantee. The amount determined above for this step is to then be divided by one minus a 7% premium load allowance (0.93). The result from "Step Three" should be divided by this number, with the resulting ratio capped at 1. The ratio is intended to measure the level of prefunding for a secondary guarantee which is used to establish reserves. Assumptions within the numerator and denominator of the ratio therefore must be consistent in order to appropriately reflect the level of prefunding. The denominator is allowed to be inconsistent only by the amount

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of the premium load allowance as defined in this step. As used here, "assumptions" include any factor or value, whether assumed or known, which is used to calculate the numerator or denominator of the ratio.

[DRAFTING NOTE: The 7% premium load allowance approximates an average premium load level as evidenced by policies currently sold in the market. Rather than have the funding ratio vary according to the actual policy loads (which can fluctuate greatly by company and product), all companies will use an identical premium load allowance at a level approximately equal to the current industry average.]

Fifth, compute the net single premium on the valuation date for the coverage provided by the secondary guarantee for the remainder of the secondary guarantee period using any valuation table and select factors authorized in Section 5A of Model #830. For purposes of calculating the net single premium, a lapse rate subject to the same criteria as the lapse rate used in applying Step 2 of 8C above may be used.

Sixth, the "net amount of additional premiums" is determined by multiplying the ratio from "Step Four" by the difference between the net single premium from "Step Five" and the basic and deficiency reserve, if any, computed in "Step Two."

Seventh, a "reduced deficiency reserve" should be computed by multiplying the deficiency reserve, if any, by the one minus the ratio from "Step Four," but not less than zero. This "reduced deficiency reserve" is the deficiency reserve to be used for purposes of Section 7D(1) of Model #830.

Eighth, the actual reserve used for purposes of Section 7D(1) of Model #830 is the lesser of: (1) the net single premium from "Step Five," and (2) the amount of the excess from "Step Six" plus the basic reserve and the deficiency reserve, if any, computed in "Step Two." Reduce this result by the applicable policy surrender charges, i.e., the account value less the cash surrender value. Multiply this surrender charge by the ratio of the net level premium for the secondary guarantee period divided by the net level premium for whole life insurance. Calculate both net premiums using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves. If the resulting amount is less than the sum of the basic and deficiency reserve from Step Two, then the basic and deficiency reserves to be used for the purposes of Section 7D(1) of Model #830 are those calculated in Step Two, and no further calculation is required.

Ninth, an "increased basic reserve" should be computed by subtracting the "reduced deficiency reserve" in "Step Seven" from the reserve computed in "Step Eight." This "increased basic reserve" is the basic reserve to be used for purposes of Section 7D(1) of Model #830.

Business reserved pursuant to Section 8C must be supported by an asset adequacy analysis specific to this business. This asset adequacy analysis must be performed pursuant to the requirements of Section 3 of the Standard Valuation Law. Reserves required by Section 8C shall be increased by any additional reserves required by the asset adequacy analysis.

8D. This Section 8D applies to policies and certificates (1) issued on and after July 1, 2005, (2) issued prior to January 1, 2013, and (3) in force on December 31, 2012, or on any valuation date thereafter: Under a universal life policy with a secondary guarantee, the coverage is guaranteed to remain in force as long as the accumulation of premiums paid satisfies the secondary guarantee requirement.

Notwithstanding the requirements of any of the other sections of this Actuarial Guideline (and in addition to any testing that may be required under Section 8C), this Section 8D describes the

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reserving requirements with respect to universal life with secondary guarantee products, with or without a shadow account, with multiple sets of interest rate or other credits, or multiple sets of cost of insurance, expense, or other charges that may become applicable to the calculation of the secondary guarantee measures in any one policy year. This Section 8D does not apply if the minimum gross premiums for the policies are determined by applying the set of charges and credits that produces the lowest premiums, regardless of the imposition of constraints, contingencies, or conditions that would otherwise limit the application of those credits and charges. The requirements of this Section 8D apply to a company on December 31, 2012, and on any subsequent valuation date if (1) on the applicable date, the in force face amount (direct plus assumed) of universal life insurance to which this Section 8D would otherwise apply exceeds 2% of the company's face amount of individual permanent life insurance in force, or (2) on the applicable date, the company's face amount of insurance in force subject to this Section 8D exceeds $1,000,000,000 (one billion dollars). Any company otherwise meeting these criteria may seek an exemption to the requirements under this Section 8D by filing an exemption request with its state of domicile, which will provide a copy of the request to the NAIC Financial Analysis (E) Working Group (FAWG). If the state of domicile agrees with the exemption request, then the requirements of this Section 8D do not apply to such company, provided FAWG does not conclude that the exemption would allow the company to use a reserving methodology that is not appropriate in relation to the benefits and the pattern of premiums for the plans covered.

a. Primary Reserve Methodology

The company's aggregate gross reserve before reinsurance for the business subject to this Section 8D to be reported in the December 31, 2012, and subsequent annual statutory financial statements of the company will be the aggregate reserve under 1 below, plus any excess of the aggregate reserve determined as defined in 2 below, over 1:

1. The basic and deficiency reserves as of the valuation date determined by the company according to the reserve methodology and assumptions used by the company for the statutorily-reported reserve for the business subject to this Section 8D as of December 31, 2011.

2. The reserve amount as of the valuation date determined according to the same requirements for determining the deterministic reserve in the version of the *Valuation Manual* specified under Section 11 of the *Standard Valuation Law* (Model #820) and adopted by the NAIC to govern the principle-based valuation on the valuation date, but with the two modifications identified below, determined as follows:

   a) First, future year-by-year cash flows for the block of business subject to this Section 8D are projected as of the valuation date. In making this projection:

      (I) the projected net investment earnings from the starting assets shall be the lesser of (i) the actual portfolio net investment returns and (ii) net investment returns based on a portfolio of A-rated corporate bonds purchased in the year of issue of the policies based on yields available in the year of issue for those bonds.

      (II) the projected net investment rate for the reinvestment assets shall be the lesser of (i) the average over a period of 12 months, ending on the June 30 prior to the valuation date, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investor Services, Inc. and (ii) 7% per annum.

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b) Second, future year-by-year net investment returns are determined from the cash flows generated in Section 8D(a)(2)(a).

c) Third, the reserve for the policies is computed using the year-by-year net investment returns determined in Section 8D(a)(2)(b) to discount the cash flows applicable to those policies.

The company may calculate the reserves as of any December 31 as of a date no earlier than three months before that December 31 valuation date, using relevant company data, provided an appropriate method is used to adjust those reserves to the valuation date.

If the aggregate reserve determined pursuant to the second calculation above exceeds the aggregate reserve determined pursuant to the first calculation, the additional reserve to be held is deemed to be required pursuant to Model #820, Section 3 and Section 5 which provide for an analysis of reserves pursuant to an asset adequacy analysis with margins for moderately adverse assumptions. Any such excess shall be allocated to each policy in proportion to the Step 1 reserve for that policy.

b. Alternative Reserve Methodology

The requirements of subsection a. above shall not apply to a company that holds a total gross reserve amount, before reinsurance, for the business subject to this Section 8D at least equal to the total reserve determined in accordance with the November 1, 2011 Life Actuarial (A) Task Force Statement on Actuarial Guideline XXXVIII, except that for purposes of determining any deficiency reserves under Model #830, using mortality and lapse assumptions according to the same requirements for determining the deterministic reserve in the *Valuation Manual*.

c. Documentation and Reporting

Under the direction of one or more qualified actuaries, the company shall prepare a stand-alone Actuarial Memorandum covering the reserve analysis performed on the business described in this Section 8D in compliance with Section 7 of the *Actuarial Opinion and Memorandum Regulation* (Model #822) to document the assumptions, analyses and results of the reserve calculations described above. The Actuarial Memorandum shall be prepared regardless of whether the company used the Primary Reserve Methodology described in Section 8D(a) or the Alternative Reserve Methodology described in Section 8D(b). Documentation in the submitted Actuarial Memorandum must be sufficient for another actuary qualified in the same practice area to evaluate the assumptions, analyses and results, and to enable regulatory review and verification that the assumptions, analyses and results satisfy the requirements described above, as they relate to the company. In the event that the *Valuation Manual* is incomplete or unclear as to any matter, the actuary preparing the Actuarial Memorandum shall use his or her best judgment in applying the requirements of the *Valuation Manual* and shall document his or her decisions in the Actuarial Memorandum. For any business subject to this Section 8D that has been ceded by the company, the Actuarial Memorandum shall provide a listing of the assuming companies with face amount, reserve credit taken, and form of reinsurance for such business. The Actuarial Memorandum shall be submitted to the state of domicile of the company by the April 30 following the valuation date.

For reporting years prior to 2015: The state of domicile shall provide a copy of the Actuarial Memorandum to FAWG and, upon request, to any other state in which the company is licensed.

For reporting years 2015 and after: The state of domicile shall provide a copy of the Actuarial Memorandum to FAWG upon request and, upon request, to any other state in which the company is licensed.

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For those companies that used the Primary Reserve Methodology described above, the Actuarial Memorandum shall also provide with respect to the business subject to this Section 8D a description of the simplifications, approximations and modeling efficiency (aggregation) techniques used to calculate the reserve amount set forth in Subsection 2 of the Primary Reserve Methodology (i.e., Section 8D(a)(2)) and a clear indication that, upon request, information may be obtained that is adequate to permit the audit of any subgroup of the aggregated reserve amounts to ensure that the total of the seriatim (policy-by-policy) reserve calculations produces a reserve not materially different than the aggregated reserve amount determined pursuant to Subsection 2 of the Primary Reserve Methodology (i.e., Section 8D(a)(2)).

Along with the filing of the Actuarial Memorandum pertaining to the December 31, 2012 valuation date, those companies using the Primary Reserve Methodology above shall also submit a report to its state of domicile indicating what the gross reserve before reinsurance for the business subject to this Section 8D would be as of December 31, 2012 if the reserve had been determined pursuant to the methodology and experience assumptions used to determine the reserve set forth in Subsection 2 of the Primary Reserve Methodology (i.e., Section 8D(a)(2)), except using a net reinvestment return rate assumption not greater than the maximum valuation interest rate for the year of issue of each policy set forth in Model #820. The company shall include in this report what its (i) total adjusted capital and (ii) company action level risk based capital would be if the company held the reserve calculated pursuant to this methodology rather than the reserve actually reported for the applicable business in the annual statement submitted by the company to the NAIC. The report described in this paragraph will be provided by the company to the state of domicile, which will forward a copy to FAWG. Upon request, the state of domicile will also forward a copy of this report to any other state in which the company is licensed. The state of domicile, FAWG, and any other state receiving the report will treat it as containing confidential information. The report is to be provided for informational purposes only, and it is to be considered and used as one additional piece of information to be evaluated in the context of the company's overall financial position.

For reporting years prior to 2015: The domestic state will perform a review of the Actuarial Memorandum in consultation with FAWG to ensure the company's reserve calculations have been performed according to the requirements of this Section 8D.

If:

- the company reports in its financial statements the reserve level required above, adjusted for any phase-in period approved by the company's state of domicile, and
- the company complies with any applicable phase-in period made by the state of domicile with respect to such additional reserves, and
- FAWG agrees with the state of domicile's decisions,

FAWG shall issue a confidential report to non-domiciliary states indicating that the company's reserving methodology is appropriate in relation to the benefits and the pattern of premiums for the plans covered. If FAWG does not agree with the state of domicile's decisions, FAWG shall issue a confidential report to non-domiciliary states indicating that the company's reserving methodology is not appropriate in relation to the benefits and the pattern of premiums for the plans covered.

For reporting years 2015 and after: The domestic state will perform a review of the Actuarial Memorandum to ensure the company's reserve calculations have been performed according to the requirements of this Section 8D and may consult with FAWG regarding this review.

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If FAWG does not agree with the state of domicile's decisions, FAWG shall issue a confidential report to non-domiciliary states indicating that the company's reserving methodology is not appropriate in relation to the benefits and the pattern of premiums for the plans covered.

8E. For policies and certificates issued on or after January 1, 2013, except for ULSG policies and certificates for which the company elects or is required to apply VM-20 as the reserve standard, per *Valuation Manual* requirements: For a universal life policy or certificate that guarantees the coverage to remain in force as long as the accumulation of premiums paid satisfies the secondary guarantee requirement.

Step 1: The first step is to derive the minimum gross premiums for the policy or certificate (to be determined at issue). Except as indicated for policies and certificates described in Method I Policy Design #3 (described below), the minimum premiums so derived must satisfy the secondary guarantee requirement. Model #830, Section 7A(4) does not apply in determining the minimum gross premiums for policies and certificates described in this Section 8E.

I) Methodology for determining the minimum gross premiums for certain designs ("Method I").

1. Policy Design #1: For a policy containing a secondary guarantee that uses a shadow account with a single set of charges and credits, the minimum gross premium for any policy year is the premium that, when paid into a policy with a zero shadow account value at the beginning of the policy year, produces a zero shadow account value at the end of the policy year, using the guaranteed shadow account charges and credits (e.g., interest credited rate, mortality charges, premium loads and expense charges) specified under the secondary guarantee.

2. Policy Design #2: For a policy that compares paid accumulated premiums to minimum required accumulated premiums (cumulative premium policy), with both accumulations based on a single set of charges and credits specified under the secondary guarantee, the minimum gross premium for any policy year is the premium that, when paid into a policy for which the accumulated premiums equals the minimum required accumulated premiums at the beginning of the policy year, results in the paid accumulated premiums being equal to the minimum required accumulated premiums at the end of the policy year.

3. Policy Design #3: If, for any policy year, a shadow account secondary guarantee, a cumulative premium secondary guarantee design, or other secondary guarantee design, provides for multiple sets of charges and/or credits, then the minimum gross premiums shall be determined by applying the set of charges and credits in that policy year that produces the lowest premiums, ignoring the constraint that such minimum premiums satisfy the secondary guarantee requirement and ignoring any contingencies or conditions that would otherwise limit the application of those charges and credits.

Notwithstanding the language in the approaches described above, the guaranteed (including conditionally guaranteed) policy credits for each year shall be limited as to magnitude in order for minimum gross premiums to be determined consistent with any of the policy designs above. The limitations must be met at the time of each product filing and also when guaranteed credits or charges for each such product are revised. For this purpose, policy credits based on the interest or accumulation rates in the policy shall not exceed the "Index" (defined in the next sentence) plus 3% per annum. The Index used to establish the limitation as to magnitude shall be either (i) the monthly average of the composite yield on seasoned corporate bonds as published by Moody's Investors Service, Inc., for the month immediately preceding the date of the Actuarial Opinion required under this Section 8E and described below, or (ii) the monthly average over a period of twelve months, ending on the June 30 preceding the date of the Actuarial Opinion required below, of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc. The averaging period chosen by the company must be elected at time of product

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filing and consistently used for that product thereafter even if guaranteed credits or charges are subsequently revised for that product.

II) Methodology for determining the minimum gross premiums for other designs ("Method II").

Unless otherwise provided in this Section 8E, the minimum gross premiums shall be the lowest schedule of premiums that keep the policy in force over the life of the secondary guarantee period and that produce the greatest deficiency reserve at issue. If deficiency reserves produced at issue are all zero, then the smallest absolute value of the difference between "quantity A" set forth in Model #830, Section 5B, over the basic reserve shall be considered the greatest deficiency reserve. For purposes of this Step 1, in deriving the deficiency reserve associated with a particular schedule of gross premiums, the X factors used shall be set equal to 1 for all durations, issue ages, and risk classes.

For policies that use a shadow account, and for cumulative premium policies the schedule of premiums that keep the policy in force over the life of the secondary guarantee period and that produce the greatest deficiency reserve at issue shall be determined assuming the following premium-paying patterns for premiums actually paid under the policy:

- Level premiums for the life of the secondary guarantee but not beyond the duration that premiums may be paid under the policy, and
- Increasing premiums over the life of the secondary guarantee (including any resulting reserve segments created), but not beyond the durations that premiums may be paid under the policy, and
- Combinations of the above premium patterns including higher initial premiums for funding levels to have access to better charges and credits with combinations of level and increasing premium patterns thereafter.

For all policies and certificates subject to this Step 1 of Method II of this Section 8E, the company shall also perform a good faith high level analytical review of the product design with respect to the premium payment patterns to be expected with respect to that design. The review should consider whether there are situations whereby the product design is likely to elicit a pattern of premium payments that, if paid, would provide the insured with access to lower charges and/or higher credits than those that would apply assuming the premium paying patterns required to be tested under this Section 8E and thereby result in the need for a deficiency reserve significantly in excess of that determined using the schedules of minimum gross premiums determined pursuant to the premium payment patterns required to be tested under this Section 8E. To the extent identified, the company shall use such other premium payment patterns it determines are likely to result in the need for a greater deficiency reserve than implied by the premium payment patterns required to be tested under this Section 8E in determining the schedule of minimum gross premiums and related deficiency reserve. In performing this analytic review, the company shall consider payment patterns which keep the policy in force over the lifetime of the secondary guarantee.

Step 2: For purposes of applying Section 7B and Section 7C of Model #830, the "specified premiums" are the minimum gross premiums derived in Step 1. Consistent with Model #830, the remaining steps in this guideline should be calculated on a segmented basis, using the segments that Model #830 defines for the product. Therefore, in the remaining steps, the term "fully fund the guarantee" should be interpreted to mean fully funding the guarantee to the end of each possible segment. The term "remainder of the secondary guarantee period" should be interpreted to mean the remainder of each possible segment. The total reserve should equal the greatest of all possible segmented reserves. Additionally, for purposes of applying Section 7B and Section 7C

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of Model #830, the lapse rate used shall be no more than 2% per year for the first 5 years, followed by no more than 1% per year to the policy anniversary specified in the following table based on issue age, and 0% per year thereafter. If the duration in the table is less than 5, then a lapse rate of no more than 2% per year may be used through that duration, and 0% per year thereafter.

Issue Age	Duration
0-50	30th policy anniversary
51-60	Policy anniversary age 80
61-70	20th policy anniversary
71-89	Policy anniversary age 90
90 and over	No lapse

Step 3: A determination should be made of the amount of actual premium payments greater than or less than the minimum gross premiums. For policies using shadow accounts and qualifying under one of the Policy Designs of Method I, this will be the amount of the shadow account. For policies using shadow accounts whose minimum gross premium is determined under Method II, this will be the amount of the shadow account minus the amount that would be in the shadow account if the minimum gross premiums used to calculate basic and deficiency reserves in Step 2 were paid. This result may be negative. For cumulative premium policies whose minimum gross premiums are determined under Method I, this excess will be the amount of cumulative premiums paid over the cumulative premium requirements. For cumulative premium policies whose minimum gross premiums are determined under Method II, this excess will be the amount of the cumulative premiums paid minus the cumulative premium using the minimum gross premiums used to calculate basic and deficiency reserves in Step 2. This result may be negative. The cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee).

Step 4: As of the valuation date for the policy being valued, for policies using shadow accounts, determine the minimum amount of shadow account required to fully fund the guarantee. For cumulative premium policies, determine the minimum amount of the cumulative premiums required to fully fund the guarantee less the cumulative premium requirements. For any policy for which the secondary guarantee cannot be fully funded in advance, solve for the minimum sum of any possible excess funding (either the amount in the shadow account or excess cumulative premium payments depending on the product design) and the present value of future premiums (using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves) that would fully fund the guarantee. For shadow account policies, if the minimum gross premium is determined according to Method II and the Step 3 amount is positive then the amount determined above for this step is reduced by any positive shadow account based on minimum gross premiums. For cumulative premium policies, if the minimum gross premium is determined according to Method II and the Step 3 amount is positive then the amount determined above for this step is reduced by the excess of cumulative premiums, assuming minimum gross premiums are paid, over the cumulative premium requirements. For shadow account policies, if the minimum gross premium is determined according to Method II and the Step 3 amount is negative then the amount determined above for this step is replaced by the amount of the shadow account based on the minimum gross premiums. For cumulative premium policies, if the minimum gross premiums are determined by Method II and the Step 3 amount is negative then the amount determined above for this step is replaced by the excess of cumulative premiums, assuming minimum gross premiums are paid, over the cumulative premium requirements.

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The amount determined above for this step is then divided by one minus a 7% premium load allowance (0.93).

The result from Step 3 should be divided by the number above, with the resulting ratio capped at 1 and no less than (-1). The ratio is intended to measure the level of prefunding for a secondary guarantee and is used to establish reserves. Assumptions within the numerator and denominator of the ratio therefore must be consistent in order to appropriately reflect the level of prefunding. The denominator is allowed to be inconsistent only by the amount of the premium load allowance as defined in this step. As used here, "assumptions" include any factor or value, whether assumed or known, that is used to calculate the numerator or denominator of the ratio.

[DRAFTING NOTE: The 7% premium load allowance approximates an average premium load level as evidenced by policies currently sold in the market. Rather than have the funding ratio vary according to the actual policy loads (which can fluctuate greatly by company and product), all companies will use an identical premium load allowance at this 7% level, which is approximately equal to the current industry average.]

Step 5: Compute the net single premium on the valuation date for the coverage provided by the secondary guarantee for the remainder of the secondary guarantee period, using any valuation table and select factors authorized in Section 5A of Model #830. For purposes of calculating the net single premium, a lapse rate subject to the same criteria as the lapse rate used in applying Step 2 may be used.

Step 6: If the amount in Step 3 is positive the "net amount of additional premiums" is determined by multiplying the ratio from Step 4 by the difference between the net single premium from Step 5 and the basic and deficiency reserve, if any, computed in Step 2.

If the amount in Step 3 is negative, the "net amount of additional premiums" is determined by multiplying the ratio from Step 4 by the basic reserves, if any, computed in Step 2. This result will be negative or zero. Subtract the deficiency reserve calculated in Step 2 from this result and then add the following amount, depending on whether the policy is a shadow account policy or a cumulative premium policy:

a) If a shadow account policy add the following:
The deficiency reserve at issue calculated using X factors associated with the premium paying pattern used in determining the greatest deficiency reserve in Method II, Step 1, multiplied by one minus the ratio of the amount of the shadow account divided by minimum amount in the shadow account that would fully fund the guarantee. This amount in Step 6(a) is not to be less than zero.

b) If a cumulative premium policy add the following:
The deficiency reserve at issue calculated using X factors associated with the premium paying pattern used in determining the greatest deficiency reserve in Method II, Step 1, multiplied by one minus the ratio of the amount of cumulative premiums paid divided by the minimum amount of cumulative premiums required to fully fund the guarantee. This amount in Step 6(b) is not to be less than zero.

Step 7: A "reduced deficiency reserve" shall be computed by multiplying the deficiency reserve, if any, by one minus the ratio (such ratio not to be set less than zero) from Step 4; this final amount also not to be set less than zero. This "reduced deficiency reserve" is the deficiency reserve to be used for purposes of Section 7D(1) of Model #830.

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Step 8: The reserve used for purposes of Model #830, Section 7D(1), is as follows.

a) Take the lesser of:
1) the "net amount of additional premiums" from Step 6 plus the basic reserve and the deficiency reserve, if any, computed in Step 2, and
2) the net single premium from Step 5.

b) Reduce the result in Step 8(a) by the applicable policy surrender charges (i.e., the account value less the cash surrender value). Multiply this surrender charge by the ratio of the net level premium for the secondary guarantee period divided by the net level premium for whole life insurance. Calculate both net premiums using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves.

c) Calculate the reserve floor:
1) If the result in Step 3 is negative, then the reserve floor shall equal the sum of the Step 2 basic and deficiency reserves and the amount from Step 6.
2) If the result in Step 3 is not negative, then the reserve floor shall equal the sum of the Step 2 basic and deficiency reserves without any adjustment.

The reserve to be used for purposes of Model #830, Section 7D(1) is the greater of the resulting amount from Step 8(b) above and the reserve floor.

Step 9: An "increased basic reserve" shall be computed by subtracting the "reduced deficiency reserve" in Step 7 from the reserve computed in Step 8. This "increased basic reserve" is the basic reserve to be used for purposes of Model #830, Section 7D(1).

Actuarial Opinion and Company Representation Requirements

If a company uses one of the Policy Design methodologies described above in Method I of this Section 8E to determine the minimum gross premiums in Step 1, the company shall submit to its state of domicile at the time of filing approval of a new product, or by December 31, 2012, for current products that will be issued in 2013 or thereafter, and at any time when rates and/or charges are changed, an Actuarial Opinion signed by the Appointed Actuary and a Representation of the Company signed by a Senior Officer of the company regarding the applicable policy form(s) that states:

Actuarial Opinion

"I, (name and professional designation), am the appointed actuary for (company name). I have examined the actuarial assumptions and actuarial methods used in determining the reserves described herein, and, in my opinion: (1) the product referenced herein meets the definition of Policy Design # ___ described in Method I in Section 8E of Actuarial Guideline XXXVIII (AG 38); (2) notwithstanding the language in Policy Design # ___, the guaranteed (including nonguaranteed) policy credits in the product available for any year do not exceed the "Index" defined in Method I in Section 8E of AG 38 plus 3% per annum; and (3) the minimum gross premiums determined under Policy Design # ___ are not inconsistent with the minimum premiums, charges and credits that are expected to apply under the policy."

(Name of actuary, printed or typed)
(Signature of actuary)
(Date signed)

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Company Representation

"(company name) hereby represents: (1) that the product referenced herein meets the definition of Policy Design # ___ described in Method I in Section 8E of Actuarial Guideline XXXVIII (AG 38); (2) notwithstanding the language in Policy Design # ___, the guaranteed (including conditionally guaranteed) policy credits in the product available for any year do not exceed the "Index" defined in Method I in Section 8E of AG 38 plus 3% per annum; and (3) the minimum gross premiums determined under Policy Design # ___ are not inconsistent with the minimum premiums, charges and credits that are expected to apply under the policy."

(Name of company Officer, printed or typed)
(Signature of company Officer)
(Date signed)

For reporting years prior to 2015: The state of domicile shall provide a copy of the Actuarial Opinion and the Company Representation to FAWG and, upon request, to any state in which the company plans to issue the policy that is the subject of the Actuarial Opinion and Company Representation.

For reporting years 2015 and after: The state of domicile shall provide a copy of the Actuarial Opinion and the Company Representation to FAWG, upon request, and, upon request, to any state in which the company plans to issue the policy that is the subject of the Actuarial Opinion and Company Representation.

Policy Design

For reporting years prior to 2015: If a company develops reserves based on Method II of this Section 8E, the company shall submit a report from its Appointed Actuary prior to issuing policies on that form to its state of domicile, which will provide a copy to FAWG and (upon request) to any state in which the company plans to issue the product, that briefly describes the analytical review performed, the company's conclusions following the analytical review, and whether any additional premium payment patterns other than those required by this Section 8E were tested as a result of the review. If FAWG agrees with the state of domicile's decisions with respect to the company's Method II reserving methodology, FAWG shall issue a confidential report to non-domiciliary states indicating that the company's reserving methodology is appropriate in relation to the benefits and the pattern of premiums for the plans covered. If FAWG does not agree with the state of domicile's decisions with respect to the company's Method II reserving methodology, FAWG shall issue a confidential report to non-domiciliary states indicating that the company's reserving methodology is not appropriate in relation to the benefits and the pattern of premiums for the plans covered.

For reporting years 2015 and after: If a company develops reserves based on Method II of this Section 8E, the company shall submit a report from its Appointed Actuary prior to issuing policies on that form to its state of domicile, which will provide a copy to FAWG, upon request, and (upon request) to any state in which the company plans to issue the product, that briefly describes the analytical review performed, the company's conclusions following the analytical review, and whether any additional premium payment patterns other than those required by this Section 8E were tested as a result of the review. If FAWG does not agree with the state of domicile's decisions with respect to the company's Method II reserving methodology, FAWG shall issue a confidential report to non-domiciliary states indicating that the company's reserving methodology is not appropriate in relation to the benefits and the pattern of premiums for the plans covered.

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Effective Date

With the exception of Steps 3 through Step 9 of Section 8A and all of Section 8B, Section 8C, Section 8D and Section 8E, the scope of this guideline shall be inclusive of policies issued on and after the earlier of a state's adoption of the revised Model #830 (adopted by the NAIC in March 1999) or the statutory accounting practices and procedures as set forth in the NAIC *Accounting Practices and Procedures Manual*. All of Section 8A, Section 8B, Section 8C, Section 8D and Section 8E shall be applicable to policies and certificates issued on or after the later of the date of a state's adoption of the revised Model #830 and January 1, 2003, subject to the dates and/or applicable scope specified in Section 8A, Section 8B, Section 8C, Section 8D and Section 8E.

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Actuarial Guideline XXXIX

RESERVES FOR VARIABLE ANNUITIES WITH GUARANTEED LIVING BENEFITS

Actuarial Guideilne XXXIX sunset on December 30, 2009, and was replaced by *Actuarial Guideline XVIII—CARVM for Variable Annuities*, effective December 31, 2009.

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Actuarial Guideline XL

GUIDELINE FOR VALUATION RATE OF INTEREST FOR FUNDING AGREEMENTS AND GUARANTEED INTEREST CONTRACTS (GICS) WITH BAIL-OUT PROVISIONS

PURPOSE

The purpose of this Guideline is to interpret the Standard Valuation Law (SVL) for assignment of appropriate valuation interest rates to risks embedded in bail-out provisions under Funding Agreements and Guaranteed Interest Contracts.

BACKGROUND

Funding Agreements (FAs) and other types of Guaranteed Interest Contracts (GICs) typically issued to tax-exempt municipal bonds, money market funds and securities lending funds often contain bail-out provisions that allow the contractholders to get their money back at full book value. Such provisions may be triggered by the credit rating downgrade of the issuer below a given level or may be at a given period's notice to the contractholder, e.g. 7, 30, 90 or 180 days' notice. The contract language for these provisions may be as follows:

1. In the event that the investment provider (i.e. the insurance company) is downgraded below *A-/A3* by S & P and/or Moody's respectively, the contract holder has the right to terminate the contract and receive the remaining principal and accrued interest without penalty. [In most cases the issuer has the alternate option to provide a replacement contract or post collateral or do a credit wrap.]

2. Each party has the right to terminate the contract before maturity by giving the other at least *7/30/90 or 180-days* notice in writing. At such termination the principal and accrued interest is payable with no penalty.

Contracts with downgrade provision

The bulk of the contracts issued with a downgrade provision are fixed rate FAs or GICs issued in connection with tax-exempt municipal bonds. These contracts can be short-term or long-term. Short-term contracts typically have an average life of around one-year, and are intended for municipal bond funds for construction, acquisition, housing, tax revenue anticipation notes (TRANS), etc. In these types of funds the cash-flow projections are provided when the case is underwritten, but there may be variability in the actual withdrawals. Any outstanding principal and interest is payable at maturity.

Long-term contracts are issued in connection with the debt service reserve (DSR) or the float fund of the bond issue, and mature at the same time as the bonds, which can be as long as 30 years. The float fund takes in deposits, and pays out the half-yearly interest and principal (if any is due) on the bonds. It runs to near zero about twice a year, after each half-yearly coupon payment. The DSR is a contingent fund for a rainy day to prevent a missed coupon or principal payment on the bond. The DSR has a single deposit that is typically 10% of the bond issue.

Contracts with put provision

FAs or GICs with put provisions are generally issued to money market funds subject to Rule 2a-7 of the Investment Company Act. Rule 2a-7 provides guidelines on liquidity, requiring funds available at book value subject to certain notification periods. Additionally, these contracts usually have downgrade provisions. Even if the downgrade provision is not in the contract, it can be assumed that the put will be exercised on downgrade, since a certain level of credit is also a Rule 2a-7 requirement.

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Typically, these FAs or GICs guarantee a floating rate of interest linked to an index like LIBOR, which is paid out and reset periodically. Most contracts have fixed maturity dates when the principal is returned. Generally the FAs or GICs are the higher yielding assets of the money market funds, and therefore puts are not expected to be exercised.

Risks

Both the downgrade and the put provisions present liquidity or concentration type of risks to the issuer, i.e. if a critical event occurs, a substantial part of the whole block of business is likely to be liquidated. Sufficient asset liquidity, prudent A/L management, cash flow testing, hedging strategies, etc. can mitigate these risks. Also, companies generally have contractual provisions providing alternative options.

Downgrade provision:
The main risk here is that, upon downgrade to the trigger level, a company may have to realize its assets at a market loss in order to pay out at book. If the downgrade happens in a falling interest rate environment there is no risk of a market loss as the underlying assets are likely to be at a higher market value. On the other hand if the downgrade occurs in a rising interest rate environment, market value losses would occur when the company sells assets to pay out liabilities at book value.

Companies have written provisions in their contracts that provide alternate options to paying at book value in a rising interest rate environment:

"Novation/Assignment" option: The novation/assignment option allows the company to transfer its liabilities to another funding agreement provider that meets the credit rating requirements of the contractholder. In a rising interest rate environment, the new provider should be willing to pay a "premium" to assume a liability crediting a below market interest rate. In a perfectly efficient market this "premium" should precisely offset the market value loss upon the sale of the asset. In practice, however, it is less likely that the "premium" would fully offset the market value loss since:

- The new provider may view the liability risk somewhat differently
- The new provider may try and take advantage of the situation of the downgraded company
- There may be a large volume of these types of contracts in the market, etc.

However, the "premium" payable by the new provider could provide a substantial offset against the market value loss incurred by the downgraded company.

"Collateralization" option: This option allows the company to post assets as collateral for the benefit of the contractholder, as an alternative to payment at book value. The collateral posted would have to meet the credit requirements of the contractholder, which could be government or agency securities. Usually the collateral posted is required to have a cushion, typically ranging from 102% to 105%.

Upon trigger of the downgrade provision, the company would need to have suitable assets in its portfolio that are available for use as collateral, and also acceptable to the contractholder. In addition, there will be administrative and custodial expenses/fees of establishing and monitoring collateral levels. In some states there may also be legal restrictions on encumbering assets that back policyholder claims.

If the downgraded company can overcome the above constraints, then collateralization is another alternative of maintaining the contract and not having to pay out at book value.

"Credit Wrap" option: Under this arrangement the contract is issued out of a separate account which is guaranteed by a financial guarantee insurer. Effectively, the credit rating of the guarantor passes through to meet the credit requirement of the FA or GIC. [A number of FAs or GICs requiring a higher credit rating are currently being written in this way.]

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The contract being wrapped has to meet certain criteria before the financial guarantee insurers are willing to wrap. Generally, the guarantor would also require higher credit rated securities in the separate account, which could be government or agency, and would require these in the 102% to 105% range. There will also be administrative and custodial expenses of establishing and monitoring the separate account in addition to the wrap fee payable to the mono-line insurer.

Although at significant cost, this option does provide the downgraded company a viable alternative to paying out at book value.

Put provision:
The put provision is not tied to a particular event but can contractually be exercised by giving the required days' notice. It has been argued that this provision is there to meet the Rule 2a-7 liquidity requirements and in practice is unlikely to be exercised, particularly since the FAs or GICs are one of the higher yielding assets of the money market portfolio. However, it is a contractual option and if, for example, the issuer were in financial difficulties, it will be exercised. Past experience suggests this is the case.

The put provision therefore presents a liquidity or concentration risk similar to that of downgrade——it is likely to be exercised in bulk upon happening of a critical event. Similar considerations apply, i.e. in a rising interest rate environment market value losses would occur when the company sells assets to pay out liabilities at book value.

Reserves

For reserving the Standard Valuation Law applies. However, when the SVL was enacted, these types of bail-out provisions did not exist, and were therefore not addressed explicitly. The purpose of this Guideline is to interpret the SVL for assignment of appropriate valuation interest rates to risks embedded in these bail-out provisions.

Other Actuarial Guidelines have provided similar interpretations. For example, Guideline XIII addresses interest bailout provisions under annuity contracts, Guideline XXX provides for participant directed withdrawal provisions under GICs, and Guideline XXXIII covers the elective and non-elective benefits under individual annuity contracts.

Plan Types

The SVL utilizes a concept now known as Plan Type, which was designed to distinguish between the various levels of disintermediation risks—the greater the disintermediation risk for a company, the more conservative is the resulting valuation rate. Plan Types designated in the model SVL are defined as follows:

Plan Type A: At any time policyholder may withdraw funds only (l) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without such adjustment but in installments over five years or more, or (3) as an immediate life annuity, or (4) no withdrawal permitted.

Plan Type B: Before expiration of the interest rate guarantee, policyholder may withdraw funds only (1) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without such adjustment but in installments over five years or more, or (3) no withdrawal permitted. At the end of interest rate guarantee, funds may be withdrawn without an adjustment in a single sum or installments over less than five years.

Plan Type C: Policyholder may withdraw funds before expiration of interest rate guarantee in a single sum or installments over less than five years either (1) without adjustment to reflect changes in interest

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rates or asset values since receipt of the funds by the insurance company, or (2) subject only to a fixed surrender charge stipulated in the contract as a percentage of the fund.

TEXT

For the purpose of the application of the Standard Valuation Law to FAs and GICs, the annuities and GIC valuation interest rates are to be used. The bailout provisions described above shall be treated as a withdrawal by the policyholder at book value, and the underlying contracts shall be classified as Plan Type C.

However, for contracts containing written provisions that allow the insurance company alternate options to paying out at book value, the valuation actuary may use a valuation rate of interest higher than Type C. In no event may the valuation interest rate be greater than that applicable to similar contracts with no put or bailout provisions. If a provision requires over-collateralization and/or use of high credit quality assets, this should be adequately reflected in the reserves.

If a higher interest rate than Type C is used, the valuation actuary must be satisfied and be able to demonstrate that the written provisions substantially reduce the liquidity risk. In addition, the valuation actuary must be satisfied, and should periodically review, that there are adequate risk management measures in place to reduce the liquidity or concentration risk, taking into consideration at least the following:

Readily liquidated assets at nil or minimal market-value loss
Cash-flow testing results
Standby lines of credit available and other liquidity facilities established
Hedges in place with liquidity options
High credit quality assets available for use as collateral.

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Actuarial Guideline XLI

PROJECTION OF GUARANTEED NONFORFEITURE BENEFITS UNDER CARVM

I. Background

The following is an excerpt from the October 21, 2003, Report of the American Academy of Actuaries' Life Valuation Subcommittee:

> Annuity SNFL Impact on Reserves
>
> Per the Standard Valuation Law, Commissioner's Annuity Reserve Valuation Method (CARVM) is:
>
> "the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, *including guaranteed nonforfeiture benefits*, provided for by the contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of the contract, that become payable prior to the end of the respective contract year."
>
> Historically the guaranteed nonforfeiture benefit calculation has been determined at issue (e.g. 90 percent of premiums accumulated at three percent interest). The recent change to the Standard Nonforfeiture Law for Individual Deferred Annuities has changed this.
>
> Nonforfeiture Rate
>
> The new Standard Nonforfeiture Law for Individual Deferred Annuities has changed the nonforfeiture rate from being static to being dynamic. Under the old law, the nonforfeiture interest rate was three percent. The revised law bases the nonforfeiture rate on the five-year Constant Maturity Treasury Rate less 125 basis points (bps). The nonforfeiture rate is subject to a minimum of one percent and a maximum of three percent. Additional enhancements include the ability to reset the nonforfeiture rate at a date predetermined in the contract and allowing an additional reduction (offset) for Equity Indexed Annuities.
>
> The nonforfeiture rate can be reset at a date predetermined in the contract (e.g. five years from issue) and based on a formula specified in the contract. The same requirements applicable to the initial rate apply to the re-determined rate.
>
> The revised law allows an additional offset to the nonforfeiture rate for contracts that provide substantive participation in an equity indexed benefit. This offset ranges from 0 bps to 100 bps.
>
> The ability to re-determine the nonforfeiture rate and that the EIA offset may be reevaluated in the future raises some issues with the CARVM calculation.
>
> In doing a CARVM projection, what should be the assumed interest rate? Should the option depend on whether there are re-determination provisions? Should the option depend on whether the product relies on an equity indexed offset?

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The Report further states:

> The minimum guaranteed interest rate in the contract might be different than the minimum nonforfeiture rate. To the extent that the guaranteed values in the contract are always greater than the minimum nonforfeiture benefits, then the nonforfeiture values do not come into play.

This Guideline specifies how to determine the nonforfeiture interest rate used in determining the minimum nonforfeiture benefits guaranteed under the contract. As noted in the Report, the minimum nonforfeiture benefits may be less the guaranteed values otherwise provided by the contract. Where this is the case, the higher guaranteed values are used in the CARVM calculation, and "the nonforfeiture values do not come into play."

It should also be noted that requirements for projecting guarantees exist in other regulations and guidelines, such as the specifications in Actuarial Guideline XXXV ("The Application of the Commissioners Annuity Reserve Method to Equity Indexed Annuities") for projecting equity-indexed guarantees. The specifications of this Guideline are in addition to any other requirements.

II. Scope

This Guideline applies to contracts subject to CARVM and the Standard Nonforfeiture Law for Individual Deferred Annuities ("SNLIDA").

III. Text

The following assumptions shall be made on the valuation date for purposes of determining the future nonforfeiture interest rate when this rate is not known in advance. For purposes of (B) below, "NI" shall refer to the nonforfeiture interest rate, "VI" shall refer to the valuation interest rate, and "CNI" shall refer to the current nonforfeiture interest rate which will be adjusted for any future durations pursuant to "A" below.

A. For the period of time during which the additional EIA offset is not known, the additional offset shall be zero.

B. For the period of time during which the nonforfeiture interest rate is not known,

$$NI = \min [\max\{VI, CNI\}, 3\%]$$

If the redetermination of the nonforfeiture interest rate is based on changes to the value of the underlying index (this will be the five year Constant Maturity Treasure Rate in the case of the nonforfeiture interest rate), then for purposes of this Guideline it shall be assumed that such rate is not known as of the first date on which the rate may be subject to redetermination.

IV. Applicability

This Guideline is effective December 31, 2006 and affects all contracts issued on or after January 1, 1981.

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Actuarial Guideline XLII

THE APPLICATION OF THE MODEL REGULATION PERMITTING THE RECOGNITION OF PREFERRED MORTALITY TABLES FOR USE IN DETERMINING MINIMUM RESERVE LIABILITIES

1. **Purpose**

The purpose of this Guideline is to provide rules and guidance ~~to appointed actuaries~~ in the selection of the proper set of mortality rates when a company chooses to use either the 2001 CSO Preferred Class Structure Mortality Table ~~authorized under~~or the ~~Model Regulation Permitting The Recognition of~~2017 CSO Preferred Class Structure Mortality ~~Tables for use in Determining Minimum Reserve Liabilities (herein after called the "Model"). All terms in this guideline specifically defined in the regulation will have the same definition~~Table as ~~specified by the regulation~~authorized under a state's requirements.

2. **Effective Date and Scope**

The 2001 CSO Preferred Class Structure Mortality Table is available for valuation purposes for individual life policy forms (and certain group life products sold to individuals by certificate with premium rates guaranteed from issue for at least two years), ~~issued on or after 1/1/2007, or, if later, the effective date of the state's actual regulation based on the Model~~ for issues as provided by the state's requirements which may be based on the NAIC *Model Regulation Permitting The Recognition of Prefered Mortablity Tables for Use in Determining Minimum Reserve Liabilities* (Model #815) and which may use the NAIC *Valuation Manual*.

The 2017 CSO Preferred Class Structure Mortality Table is available for valuation purposes for individual life policy forms (and certain group life products sold to individuals by certificate with premium rates guaranteed from issue for at least two years), for issues as provided by a state's requirements which may use the NAIC *Valuation Manual*.

The applicable CSO Preferred Class Structure Mortality Table is either the 2001 CSO Preferred Class Structure Mortality Table or the 2017 CSO Preferred Class Structure Mortality Table as applicable in context.

3. **Definitions**

A. "Anticipated mortality" means the appointed actuary's assumption about the mortality to be experienced in the future on a group of insured lives.

B. "Appointed actuary" means any individual who is appointed or retained in accordance with the requirements set forth in the Actuarial Opinion and Memorandum Regulation.

C. "Basic reserves" means reserves calculated in accordance with Section 5 of the Standard Valuation Law.

D. "Class" means a group of policies under one or more plans of insurance that has similar anticipated mortality, as grouped together by the insurer.

E. "Credibility" means a measure of the predictive value in a given application that the appointed actuary attaches to a particular body of data (predictive is used here in the statistical sense and not in the sense of predicting the future).

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F. "Deficiency reserves" means the excess over basic reserves, if any, of minimum reserves established in accordance with Section 8 of the Standard Valuation Law.

G. "Full credibility" means the level at which a particular body of data is assigned full predictive value based on a selected confidence interval.

H. "Preferred class certification" means the certification required by Section 5 of the Model.

I. "Underwriting-based justification" means the incorporation of underwriting criteria for use in setting the anticipated mortality assumption.

J. "Underwriting class" means the insurer's designation of insureds into particular premium rate structure, e.g. super preferred, preferred, or standard.

4. Selection of Table within the ~~2001~~Applicable CSO Preferred Class Structure Mortality Table

VM-20, Section 3C of the *Valuation Manual*~~Section 5 of the Model~~ contains the requirements governing the set of mortality rates to be used for the purpose of calculating reserves based on the ~~2001~~applicable CSO Preferred Class Structure Mortality Table. The election of the ~~2001~~applicable CSO Preferred Class Structure Mortality Table is on a policy form and calendar year of issue basis, although once a calendar year cohort of policy forms is placed on the ~~2001~~applicable CSO Preferred Class Mortality Structure Table basis, it may not subsequently revert back to the standard ~~2001~~applicable CSO basis without the approval of the commissioner. This would be considered a basis change for annual statement reporting purposes. For those calendar years of issue in which a company opts to use the ~~2001~~applicable CSO Preferred Class Structure Mortality Table, it must use the current ~~2001~~applicable CSO Preferred Class Structure Mortality Table for the chosen policy forms, i.e. a company may not use the preferred classes from the ~~2001~~applicable CSO Preferred Class Structure Mortality Table and use the applicable Standard ~~2001~~ CSO Mortality Table for the non-preferred class(es). Additionally, if the company sells two similar policy forms in the same market the appointed actuary must use the same version of the table for both forms and may not use the ~~2001~~applicable CSO Preferred Class Structure Mortality Table on one and the applicable Standard ~~2001~~ CSO Mortality Table on the other. A characteristic of this two-form scenario is that preferred lives would be attracted to one form and non-preferred lives would be attracted to the other.

The Model contains a requirement that at the time of election and annually thereafter, except for business valued under the applicable Residual Standard Nonsmoker Table or the applicable Residual Standard Smoker Table, the appointed actuary shall certify that the following tests of sufficiency were passed:

a. For each class, the present value of death benefits over the next ten years after the valuation date using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.

b. For each class, the present value of death benefits over the future life of the contracts using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.

In the event that the class does not contain any policies with expiry dates ten or more years into the future, the sufficiency test based on the present value over the future life of the contracts shall be the only test required.

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In order to choose the proper set of mortality rates within the ~~2001~~applicable CSO Preferred Class Structure Mortality Table and to develop the preferred class certification, the following considerations shall be made:

A. Creation of Classes

The appointed actuary should consider the composition and characteristics of the policies issued under a plan of insurance in determining the appropriate classes that will be applicable under that plan. The policies that comprise classes generally have similar underwriting or mortality experience characteristics. When classes are similar across various plans of insurance, these classes may be combined into a single aggregate class. The appointed actuary shall not combine classes that are expected to have dissimilar anticipated mortality as a means to produce reserves that are materially lower than those developed if the classes were not combined.

The appointed actuary should consider the presence of reinsurance in creating classes. Anticipated mortality should be assessed and classes should be created on a gross basis. To the extent that anticipated mortality on reinsurance ceded or assumed is materially different from that on direct business, the appointed actuary should consider creating separate classes to properly reflect the anticipated mortality.

If, due to differences in actual experience by policy form and underwriting class, groupings of classes are changed from those used in the prior actuarial certifications, the change and the effect of the change shall be disclosed to the commissioner in the actuarial certification.

Separate classes may be established for a single policy form if there are significant anticipated mortality differences for different cohorts of insured lives, such as age groups or policy sizes. For instance, if a company has different underwriting thresholds for policies with face amounts of $1 million or more, it may be appropriate to have a class for policies with face amounts of less than $1 million and a separate class for policies of $1 million or more.

B. Deriving Anticipated Mortality

i. If relevant company experience for a particular class is available and has full credibility, the appointed actuary shall use that experience as the basis for deriving anticipated mortality.

ii. In situations where relevant company experience for a particular class is available but does not have full credibility, the appointed actuary shall derive the anticipated mortality by blending the relevant company experience for the class with actual relevant, credible experience and past trends in experience of other similar types of business, either in the same company, in other companies (including reinsurance companies), or from other sources, generally in that order of preference provided that the appointed actuary supplies underwriting-based justification. The blending process shall be based on a credibility methodology that is recognized by the actuarial profession as acceptable practice as provided for in published transactions and scientific journals.

iii. In situations where relevant company experience for a particular class is not available (e.g. a new product), the appointed actuary may derive the anticipated mortality using actual relevant credible experience and past trends in experience of other similar types of business either in the same company, in other companies (including reinsurance companies), or from other sources, generally in that order

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of preference, provided that the appointed actuary supplies underwriting-based justification.

iv. Underwriting-based justification shall include an analysis of the relationship between the underwriting-based criteria for the class where no experience data is available or does not have full credibility and the underwriting-based criteria that underlie the actual relevant credible experience data.

v. If no sufficient underwriting-based or experienced-based justification is made to derive anticipated mortality for a class, the company shall not use the ~~2001~~applicable CSO Preferred Class Structure Mortality Table for valuation.

C. Periodic Assessment of Anticipated Mortality

The appointed actuary shall annually review relevant emerging experience and underwriting methods for the purpose of assessing the appropriateness of anticipated mortality for each class and, in aggregate, for all classes combined. If the results of statistical or other testing indicate that previously anticipated mortality for a given class is inappropriate, then the appointed actuary shall set a new anticipated mortality assumption for the class. After analyzing the appropriateness of the anticipated mortality for each class, the appointed actuary shall analyze the appropriateness of the anticipated mortality assumptions at the aggregate level. If the analysis at the aggregate level indicates that aggregate anticipated mortality is inadequate, then the appointed actuary shall adjust the anticipated mortality assumption for one or more of the classes until the appointed actuary is satisfied that the anticipated mortality assumptions are adequate at the aggregate level.

D. Tests of Sufficiency

After the anticipated mortality is established, each class must be tested for sufficiency. If a class fails any required sufficiency test, the class must be re-valued using a different set of mortality rates from the ~~2001~~applicable CSO Preferred Class Structure Mortality Table. A company must choose a set of mortality rates under which all required tests of sufficiency can be passed.

E. Calculation of Present Value

When a class is tested for sufficiency, the calculation of the present value of death benefits shall be based on a projection of death benefits, without the effect of lapse, at the valuation interest rate used to determine basic reserves for the class. If the class contains policies with several valuation interest rates, the lowest valuation interest rate used to determine the base reserves for any policy within the class shall be used for that class.

F. Right of Commissioner to Change the Table Used by the Company

The commissioner may require a company to change the mortality table if it is determined by the commissioner that inadequate justification of anticipated mortality is provided by the company.

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5. **Communications and Disclosures**

The appointed actuary shall provide to the commissioner an annual certification that, as of the valuation date, the anticipated mortality experience of each class of business (other than Residual Standard Class) meets the criteria of 4(a) and 4(b) above. Additionally, the appointed actuary shall prepare an annual report in support of the certification. The report shall include the following items:

A. The certification that the report supports;

B. The specified plans of insurance for which the company has elected to use the Preferred Class Structure Table, briefly describing each plan and the amount of in force business (count, face amount, and reserves) on each plan on the valuation date;

C. Compliance with the certification criteria;

D. Description of sources of information used as a basis for determining anticipated mortality;

E. Analysis performed to evaluate the credibility of relevant historical company experience when establishing anticipated mortality for each class;

F. Analysis performed to evaluate the relationship between the underwriting-based criteria and the anticipated mortality established in each class.

G. Statistical or other quantitative analyses performed in assessing the continued appropriateness of the anticipated mortality assumption for each class and for all classes in aggregate, and a summary of changes made as a result of the analyses;

H. Anticipated Mortality without recognition of mortality improvement beyond the date of valuation, for each class and for all classes in aggregate;

I. For each class, the ratio of Anticipated Mortality to the mortality rates in the Valuation Basic Table corresponding to the set of valuation mortality rates being used for that class;

J. Any changes made in the approach or parameters applied to the statistical analyses or tests performed compared to those performed at the last annual valuation; and,

K. Disclosure of the financial impact of any change in the chosen set of valuation mortality rates.

Drafting Note: Annual actuarial opinions, certifications and reports for the use of "X" factors have been required since the implementation of the NAIC *Valuation of Life Insurance Model Regulation*. The work and analysis to be performed for Preferred Class Certification is very similar to the requirements for the use of the "X" factors and the appointed actuary may combine the selection and analysis of "X" factors and the selection and analysis of ~~2001~~applicable CSO Preferred Class Structure Mortality Table into one actuarial opinion, certification and annual experience report, if the appointed actuary wishes to do so.

6. Other Items of Note

A. If a class of business is assigned to a different set of mortality rates within the ~~2001~~applicable CSO Preferred Class Structure Mortality Table (either a higher or lower level of mortality rates) from that used in the prior valuation, the change is not considered

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a basis change, and the reserve change must be accounted for in the calculation of gain from operations.

B. Multiple underwriting classes on a policy form can be mapped into the same set of mortality rates within the ~~2001~~applicable CSO Preferred Class Structure Mortality Table, if, in aggregate, the underwriting classes can be shown to have anticipated mortality no greater than the valuation basic table underlying the set of mortality rates selected.

C. If a company chooses to use the ~~2001~~applicable CSO Preferred Class Structure Mortality Table for basic reserves, the same table must be the basis for the calculation of deficiency reserves, if applicable.

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Actuarial Guideline XLIII

CARVM FOR VARIABLE ANNUITIES

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Section I) Background

The purpose of this Actuarial Guideline (Guideline) is to interpret the standards for the valuation of reserves for variable annuity and other contracts involving certain guaranteed benefits similar to those offered with variable annuities. The Guideline codifies the basic interpretation of the Commissioners Annuity Reserve Valuation Method (CARVM) by clarifying the assumptions and methodologies that will comply with the intent of the Standard Valuation Law (SVL). It also applies similar assumptions and methodologies to contracts that contain characteristics similar to those described in the scope, but that are not directly subject to CARVM.

For many years regulators and the industry have struggled with the issue of applying a uniform reserve standard to these contracts and in particular some of the guaranteed benefits referenced above. Current approaches make assumptions about product design, contractholder behavior and economic relationships and conditions. The economic volatility seen over the last few decades, combined with an increase in the complexity of these products, have made attempts to use these approaches for measuring economic-related risk less successful.

The Guideline addresses these issues by including an approach that applies principles of asset adequacy analysis directly to the risks associated with these products and guarantees.

The NAIC is currently using a similar approach to calculate risk-based capital (RBC) for similar contracts (i.e., the C-3 Phase II project). The methodology in the Guideline is based on that approach, and the intent of the Guideline is to, where possible, facilitate a framework whereby companies may determine both reserve and RBC in a consistent calculation.

In developing the Guideline, two regulatory sources were looked to for guidance. First, the SVL requires that CARVM be based on the greatest present value of future guaranteed benefits. Second, the NAIC Model Variable Annuity Regulation (VAR) states that the "reserve liability for variable annuities shall be established pursuant to the requirements of the Standard Valuation Law in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees."

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The Guideline requires that reserves for contracts falling within its scope be based on a minimum floor determined using a standard scenario (referred to as the Standard Scenario Amount) plus the excess over this minimum floor, if any, of a reserve calculated using a projection of the assets and estimated liabilities supporting these contracts over a broad range of stochastically generated projection scenarios and using prudent estimate assumptions (referred to as the Conditional Tail Expectation Amount). Within each of these scenarios, the greatest of the present values of accumulated losses ignoring Federal Income Tax is determined. The assumed fund performance for these scenarios must meet the mandated calibration standards contained in the Guideline. The reserve calculated using projections is based on a Conditional Tail Expectation measure of the results for each scenario.

Conditional Tail Expectation (CTE) is a statistical risk measure that provides enhanced information about the tail of a distribution above that provided by the traditional use of percentiles. Instead of only identifying a value at a particular percentile and thus ignoring the possibility of extremely large values in the tail, CTE recognizes a portion of the tail by providing the average over all values in the tail beyond the CTE percentile. Thus where the tail of the distribution of losses approximates that of a standard normal distribution, CTE (70) will approximate the 88th percentile; where the tail is "fatter" than that of a standard normal distribution, CTE (70) will exceed the 88th percentile; and where the tail is not as "fat" as a standard normal distribution, CTE (70) will be lower than the 88th percentile. Therefore, for distributions with "fat tails" from low probability, high impact events, such as those covered by the Guideline, the use of CTE will provide a more revealing measure than use of a single percentile requirement.

For certain products (e.g., variable annuities with Guaranteed Minimum Death Benefits only), a company can use an Alternative Methodology in place of the modeling approach outlined above to determine the Conditional Tail Expectation Amount.

The projection methodology used to calculate the Conditional Tail Expectation Amount, as well as the approach used to develop the Alternative Methodology, is based on the following set of principles. These principles should be followed when applying the methodology in the Guideline and analyzing the resulting reserves.[1]

Principle 1. The objective of the approach used to determine the Conditional Tail Expectation Amount is to quantify the amount of statutory reserves needed by the company to be able to meet contractual obligations in light of the risks to which the company is exposed.

Principle 2. The calculation of the Conditional Tail Expectation Amount is based on the results derived from an analysis of asset and liability cash flows produced by the application of a stochastic cash flow model to equity return and interest rate scenarios. For each scenario the greatest present value of accumulated surplus deficiency is calculated. The analysis reflects Prudent Estimate (see the definition of Prudent Estimate in Section III) assumptions for deterministic variables and is performed in aggregate (subject to limitations related to contractual provisions[2] to allow the natural offset of risks within a given scenario. The methodology utilizes a projected total statutory balance sheet approach by including all projected income, benefit and expense items related to the business in the model and sets the Conditional Tail Expectation Amount at a degree of confidence using the conditional tail expectation measure applied to the set

[1] Note the following when considering these principles:
a. The principles should be considered in their entirety.
b. The Guideline requires companies to meet these principles with respect to only those contracts that fall within the scope of the Guideline and are inforce as of the valuation date to which the requirements are applied.

[2] Examples where full aggregation between contracts may not be possible include experience rated group contracts and the operation of reinsurance treaties.

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of scenario specific greatest present values of accumulated statutory deficiencies that is deemed to be reasonably conservative over the span of economic cycles.

Principle 3. The implementation of a model involves decisions about the experience assumptions and the modeling techniques to be used in measuring the risks to which the company is exposed. Generally, assumptions are to be based on the conservative end of the actuary's confidence interval. The choice of a conservative estimate for each assumption may result in a distorted measure of the total risk. Conceptually,[3] the choice of assumptions and the modeling decisions should be made so that the final result approximates what would be obtained for the Conditional Tail Expectation Amount at the required CTE level if it were possible to calculate results over the joint distribution of all future outcomes. In applying this concept to the actual calculation of the Conditional Tail Expectation Amount, the actuary should be guided by evolving practice and expanding knowledge base in the measurement and management of risk.

Principle 4. While a stochastic cash flow model attempts to include all real world risks relevant to the objective of the stochastic cash flow model and relationships among the risks, it will still contain limitations because it is only a model. The calculation of the Conditional Tail Expectation Amount is based on the results derived from the application of the stochastic cash flow model to scenarios while the actual statutory reserve needs of the company arise from the risks to which the company is (or will be) exposed in reality. Any misconnect between the model and reality should be reflected in setting Prudent Estimate assumptions to the extent not addressed by other means.

Principle 5. Neither a cash flow scenario model nor a method based on factors calibrated to the results of a cash flow scenario model, can completely quantify a company's exposure to risk. A model attempts to represent reality, but will always remain an approximation thereto and hence uncertainty in future experience is an important consideration when determining the Conditional Tail Expectation Amount. Therefore, the use of assumptions, methods, models, risk management strategies (e.g., hedging), derivative instruments, structured investments or any other risk transfer arrangements (such as reinsurance) that serve solely to reduce the calculated Conditional Tail Expectation Amount without also reducing risk on scenarios similar to those used in the actual cash flow modeling are inconsistent with these principles. The use of assumptions and risk management strategies should be appropriate to the business and not merely constructed to exploit 'foreknowledge' of the components of the required methodology.

The methodology prescribed in the Guideline is applied to a company's entire portfolio of variable annuities (whether or not they contain guaranteed benefits), as well as other affected products that contain guaranteed benefits. Current guaranteed benefits include Guaranteed Minimum Death Benefits, Guaranteed Minimum Accumulation Benefits, Guaranteed Minimum Income Benefits, Guaranteed Minimum Withdrawal Benefits, Guaranteed Lifetime Withdrawal Benefits, and Guaranteed Payout Annuity Floors. It is also expected that the methodology in the Guideline will be applied to future variations on these designs and to new guarantee designs.

Since statutory reporting requires companies to report reserves prior to reinsurance, the Guideline clarifies standards for adjusting the various components of the reserve so that the reserve may be reported both prior to and net of reinsurance.

The Guideline also requires an allocation of the total reported reserve between the General and Separate Accounts and prescribes a method for doing this allocation.

[3] The intent of Principle 3 is to describe the conceptual framework for setting assumptions. Appendix 9 provides the requirements and guidance for setting contractholder behavior and includes alternatives to this framework if the actuary is unable to fully apply this principle.

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Actuarial certification of the work done to calculate reserves is required by the Guideline. A qualified actuary (referred to throughout the Guideline as "the actuary") shall certify that the work has been done in a way that meets all applicable Actuarial Standards of Practice.

For more details on the development of these requirements, including the development of the calibration criteria, see the American Academy of Actuaries recommendation on C-3 Phase II risk-based capital.

This Guideline and its Appendices require the actuary to make various determinations, verifications and certifications. The company shall provide the actuary with the necessary information sufficient to permit the actuary to fulfill the responsibilities set forth in this Guideline and its Appendices and responsibilities arising from applicable Actuarial Standards of Practice, including ASOP No. 23, *Data Quality*.

The risks reflected in the calculation of reserves under this Guideline arise from actual or potential events or activities which are both:

a) Directly related to the contracts falling under the scope of this Guideline or their supporting assets; and
b) Capable of materially affecting the reserve.

Categories and examples of risks reflected in the reserve calculation include but are not necessarily limited to:

a) Asset Risks
   (i) Separate Account fund performance;
   (ii) Credit risks (e.g., default or rating downgrades);
   (iii) Commercial mortgage loan rollover rates (roll-over of bullet loans);
   (iv) Uncertainty in the timing or duration of asset cash flows (e.g., shortening (prepayment risk) and lengthening (extension risk));
   (v) Performance of equities, real estate and Schedule BA assets;
   (vi) Call risk on callable assets;
   (vii) Risk associated with hedge instrument (includes basis, gap, price, parameter estimation risks, and variation in assumptions); and
   (viii) Currency risk.
b) Liability Risks
   (i) Reinsurer default, impairment or rating downgrade known to have occurred before or on the valuation date;
   (ii) Mortality/longevity, persistency/lapse, partial withdrawal and premium payment risks;
   (iii) Utilization risk associated with guaranteed living benefits;
   (iv) Anticipated mortality trends based on observed patterns of mortality improvement or deterioration, where permitted;
   (v) Annuitization risks; and
   (vi) Additional premium dump-ins (high interest rate guarantees in low interest rate environments);
c) Combination Risks
   (i) Risks modeled in the company's risk assessment processes that are related to the contracts, as described above;
   (ii) Disintermediation risk (including such risk related to payment of surrender or partial withdrawal benefits); and
   (iii) Risks associated with Revenue Sharing Income.

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The risks not necessarily reflected in the calculation of reserves under this Guideline are:

a) Those not reflected in the determination of Risk-Based Capital; and

b) Those reflected in the determination of Risk-Based Capital but arising from obligations of the company not directly related to the contracts falling under the scope of this Guideline, or their supporting assets, as described above.

Categories and examples of risks not reflected in the reserve calculations include but are not necessarily limited to:

a) Asset Risks
Liquidity risks associated with a "run on the bank."

b) Liability Risks
(i) Reinsurer default, impairment or rating downgrade occurring after the valuation date;
(ii) Catastrophic events (e.g., epidemics or terrorist events);
(iii) Major breakthroughs in life extension technology that have not yet fundamentally altered recently observed mortality experience; and
(iv) Significant future reserve increases as an unfavorable scenario is realized.

c) General Business Risks
(i) Deterioration of reputation;
(ii) Future changes in anticipated experience (reparameterization in the case of stochastic processes) which would be triggered if and when adverse modeled outcomes were to actually occur;
(iii) Poor management performance;
(iv) The expense risks associated with fluctuating amounts of new business;
(v) Risks associated with future economic viability of the company;
(vi) Moral hazards; and
(vii) Fraud and theft.

Section II) Scope

A) The Guideline applies to contracts, whether directly written or assumed through reinsurance, falling into any of the following categories:

1) Variable deferred annuity contracts subject to the Commissioner's Annuity Reserve Valuation Method (CARVM), whether or not such contracts contain Guaranteed Minimum Death Benefits (GMDBs), or Variable Annuity Guaranteed Living Benefits (VAGLBs);

2) Variable immediate annuity contracts, whether or not such contracts contain GMDBs or VAGLBs;

3) Group annuity contracts that are not subject to CARVM, but contain guarantees similar in nature[4] to GMDBs, VAGLBs, or any combination thereof; and

4) All other products that contain guarantees similar in nature to GMDBs or VAGLBs, even if the insurer does not offer the mutual funds or variable funds to which these guarantees relate, where there is no other explicit reserve requirement.[5]

[4] The term "similar in nature," as used in sections II)A)3) and II)A)4) is intended to capture both current products and benefits as well as product and benefit designs that may emerge in the future. Examples of the currently known designs are listed in footnote #5 below. Any product or benefit design that does not clearly fit the Scope should be evaluated on a case-by-case basis taking into consideration factors that include, but are not limited to, the nature of the guarantees, the definitions of GMDB and VAGLB in sections III)A)1) and III)A)2) and whether the contractual amounts paid in the absence of the guarantee are based on the investment performance of a market-value fund or market-value index (whether or not part of the company's separate account).

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If such a benefit is offered as part of a contract that has an explicit reserve requirement and that benefit does not currently have an explicit reserve requirement:

a) The Guideline shall be applied to the benefit on a standalone basis (i.e., for purposes of the reserve calculation, the benefit shall be treated as a separate contract);

b) The reserve for the underlying contract is determined according to the explicit reserve requirement; and

c) The reserve held for the contract shall be the sum of a) and b).

B) The Guideline does not apply to contracts falling under the scope of the NAIC Model Modified Guaranteed Annuity Regulation (MGAs); however, it does apply to contracts listed above that include one or more subaccounts containing features similar in nature to those contained in MGAs (e.g., market value adjustments).

C) Separate account products that guarantee an index and do not offer GMDBs or VAGLBs are excluded from the scope of the Guideline.

Section III) Definitions

A) Definitions of Benefit Guarantees

1) Guaranteed Minimum Death Benefit (GMDB). A GMDB is a guaranteed benefit providing, or resulting in the provision that, an amount payable on the death of a contractholder, annuitant, participant, or insured will be increased and/or will be at least a minimum amount. Only such guarantees having the potential to produce a contractual total amount payable on death that exceeds the account value, or in the case of an annuity providing income payments, an amount payable on death other than continuation of any guaranteed income payments, are included in this definition. GMDBs that are based on a portion of the excess of the account value over the net of premiums paid less partial withdrawals made (e.g., an Earnings Enhanced Death Benefit) are also included in this definition.

2) Variable Annuity Guaranteed Living Benefit (VAGLB). A VAGLB is a guaranteed benefit providing, or resulting in the provision that, one or more guaranteed benefit amounts payable or accruing to a living contractholder or living annuitant, under contractually specified conditions (e.g., at the end of a specified waiting period, upon annuitization, or upon withdrawal of premium over a period of time), will increase contractual benefits should the contract value referenced by the guarantee (e.g., account value) fall below a given level or fail to achieve certain performance levels. Only such guarantees having the potential to provide benefits with a present value as of the benefit commencement date that exceeds the contract value referenced by the guarantee are included in this definition. Payout annuities without minimum payout or performance guarantees are neither considered to contain nor to be VAGLBs.

3) Guaranteed Minimum Income Benefit (GMIB). A GMIB is a VAGLB design for which the benefit is contingent on annuitization of a variable deferred annuity or similar contract. The benefit is typically expressed as a contractholder option, on one or more

[5] For example, a group life contract that wraps a GMDB around a mutual fund would generally fall under the scope of the Guideline since there is not an explicit reserve requirement for this type of group life contract. However, for an individual variable life contract with a GMDB and a benefit similar in nature to a VAGLB, the Guideline would generally apply only to the VAGLB-type benefit, since there is an explicit reserve requirement that applies to the variable life contract and the GMDB.

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option dates, to have a minimum amount applied to provide periodic income using a specified purchase basis.

4) Guaranteed Payout Annuity Floor (GPAF). A GPAF is a VAGLB design guaranteeing that one or more of the periodic payments under a variable immediate annuity will not be less than a minimum amount.

B) Definitions of Reserve Methodology Terminology

1) Scenario. A scenario consists of a set of asset growth rates and investment returns from which assets and liabilities supporting a set of contracts may be determined for each year of a projection.

2) Cash Surrender Value. For purposes of the Guideline, the Cash Surrender Value for a contract is the amount available to the contractholder upon surrender of the contract. Generally, it is equal to the account value less any applicable surrender charges, where the surrender charge reflects the availability of any free partial surrender options. For contracts where all or a portion of the amount available to the contractholder upon surrender is subject to a market value adjustment, however, the Cash Surrender Value shall reflect the market value adjustment consistent with the required treatment of the underlying assets. That is, the Cash Surrender Value shall reflect any market value adjustments where the underlying assets are reported at market value, but shall not reflect any market value adjustments where the underlying assets are reported at book value.

3) Scenario Greatest Present Value. For a given scenario, the Scenario Greatest Present Value is the sum of:
   a) The greatest of the present values, as of the projection start date, of the projected Accumulated Deficiencies for the scenario; and
   b) The Starting Asset Amount, as defined below.

4) Conditional Tail Expectation Amount. The Conditional Tail Expectation Amount is equal to the numerical average of the 30 percent largest values of the Scenario Greatest Present Values.

5) Working Reserve. The Working Reserve is the assumed reserve used in the projections of Accumulated Deficiencies supporting the calculation of the Scenario Greatest Present Values. At any point in the projections, including at the start of the projection, the Working Reserve shall equal the projected Cash Surrender Value.

For a variable payout annuity without a Cash Surrender Value, the Working Reserve shall equal the present value, at the valuation interest rate and the valuation mortality table specified for such a product by the Standard Valuation Law of future income payments projected using a return based on the valuation interest rate less appropriate asset based charges. For annuitizations that occur during the projection, the valuation interest rate as of the current valuation date may be used in determining the Working Reserve. Alternatively, if an integrated model of equity returns and interest rates is used, a future estimate of valuation interest rates may be incorporated into the Working Reserve.

For contracts not covered above, the actuary shall determine the Working Reserve in a manner that is consistent with the above requirements.

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6) Accumulated Deficiency. Accumulated Deficiency is an amount measured as of the end of a projection year and equals the projected Working Reserve less the amount of projected assets, both as of the end of the projection year. Accumulated Deficiencies may be positive or negative.[6]

7) Starting Asset Amount. The Starting Asset Amount equals the value of the assets at the start of the projection, as defined in section A1.4)A) of Appendix 1.

8) Prudent Estimate. The deterministic assumptions to be used for projections are to be the actuary's Prudent Estimate. This means that they are to be set at the conservative end of the actuary's confidence interval as to the true underlying probabilities for the parameter(s) in question, based on the availability of relevant experience and its degree of credibility.

A Prudent Estimate assumption is developed by applying a margin for uncertainty to the "Anticipated Experience" assumption. The margin for uncertainty shall provide for estimation error and margins for adverse deviation. The resulting Prudent Estimate assumption shall be reasonably conservative over the span of economic cycles and over a plausible range of expected experience, in recognition of the Principles described in Section I. "Anticipated Experience" would typically be the actuary's reasonable estimate of future experience for a risk factor given all available, relevant information pertaining to the contingencies being valued. Recognizing that assumptions are simply assertions of future unknown experience, the margin should be directly related to uncertainty in the underlying risk factor. The greater the uncertainty, the larger the margin. Each margin should serve to increase the Aggregate Reserve that would otherwise be held in its absence (i.e., using only the Anticipated Experience assumption).

For example, assumptions for circumstances that have never been observed require more margins for error than those for which abundant and relevant experience data are available.

This means that valuation assumptions not stochastically modeled are to be consistent with the stated Principles in Section I, be based on any relevant and credible experience that is available, and should be set to produce, in concert with other Prudent Estimate assumptions, a Conditional Tail Expectation Amount that is consistent with the stated CTE level.

The actuary shall follow the principles discussed in Appendices 9 and 10 in determining Prudent Estimate assumptions.

9) Gross Wealth Ratio. The Gross Wealth Ratio is the cumulative return for the indicated time period and percentile (e.g., 1.0 indicates that the index is at its original level).

10) Clearly Defined Hedging Strategy. The designation of Clearly Defined Hedging Strategy applies to strategies undertaken by a company to manage risks through the future purchase or sale of hedging instruments and the opening and closing of hedging positions. In order to qualify as a Clearly Defined Hedging Strategy, the strategy must meet the principles outlined in the Background section of the Guideline (particularly Principle 5) and shall, at a minimum, identify:

a) The specific risks being hedged (e.g., delta, rho, vega, etc.),

[6] Note that a positive Accumulated Deficiency means that there is a cumulative loss and a negative Accumulated Deficiency means that there is a cumulative gain.

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b) The hedge objectives,
c) The risks not being hedged (e.g., variation from expected mortality, withdrawal, and other utilization or decrement rates assumed in the hedging strategy, etc.),
d) The financial instruments that will be used to hedge the risks,
e) The hedge trading rules including the permitted tolerances from hedging objectives,
f) The metric(s) for measuring hedging effectiveness,
g) The criteria that will be used to measure effectiveness,
h) The frequency of measuring hedging effectiveness,
i) The conditions under which hedging will not take place, and
j) The person or persons responsible for implementing the hedging strategy.

The hedge strategy may be dynamic, static, or a combination thereof.

It is important to note that strategies involving the offsetting of the risks associated with variable annuity guarantees with other products outside of the scope of the Guideline (e.g., equity-indexed annuities) do not currently qualify as a Clearly Defined Hedging Strategy under the Guideline.

11) Revenue Sharing. Revenue Sharing, for purposes of the Guideline, means any arrangement or understanding by which an entity responsible for providing investment or other types of services makes payments to the company (or to one of its affiliates). Such payments are typically in exchange for administrative services provided by the company (or its affiliate), such as marketing, distribution and recordkeeping. Only payments that are attributable to charges or fees taken from the underlying variable funds or mutual funds supporting the contracts that fall under the scope of the Guideline shall be included in the definition of Revenue Sharing.

12) Domiciliary Commissioner. For purposes of the Guideline, this term refers to the chief insurance regulatory official of the state of domicile of the company.

13) Aggregate Reserve. The minimum reserve requirement as of the valuation date for the contracts falling within the scope of the Guideline.

14) 1994 Variable Annuity MGDB Mortality Table. This mortality table is shown in Appendix 11.

Section IV) Definition of General Reserve Methodology

A) General Description. The Aggregate Reserve for contracts falling within the scope of the Guideline shall equal the Conditional Tail Expectation Amount but not less than the Standard Scenario Amount, where the Aggregate Reserve is calculated as the Standard Scenario Amount plus the excess, if any, of the Conditional Tail Expectation Amount over the Standard Scenario Amount.

B) Impact of Reinsurance Ceded. Where reinsurance is ceded for all or a portion of the contracts, both components in the above general description (and thus the Aggregate Reserve) shall be determined net of any reinsurance treaties that meet the statutory requirements that would allow the treaty to be accounted for as reinsurance.

An Aggregate Reserve before reinsurance shall also be calculated if needed for regulatory reporting or other purposes, using methods described in Appendix 2.

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C) The Standard Scenario Amount. The Standard Scenario Amount is the aggregate of the reserves determined by applying the Standard Scenario method to each of the contracts falling within the scope of the Guideline. The Standard Scenario method is outlined in Appendix 3.

D) The Conditional Tail Expectation Amount. The Conditional Tail Expectation Amount shall be determined based on a projection of the contracts falling within the scope of the Guideline, and the assets supporting these contracts, over a broad range of stochastically generated projection scenarios and using Prudent Estimate assumptions.

The stochastically generated projection scenarios shall meet the Scenario Calibration Criteria described in Appendix 5.

The Conditional Tail Expectation Amount may be determined in aggregate for all contracts falling within the scope of the Guideline (i.e., a single grouping). At the option of the company, it may be determined by applying the methodology outlined below to sub-groupings of contracts, in which case, the Conditional Tail Expectation Amount shall equal the sum of the amounts computed for each such sub-grouping.

The Conditional Tail Expectation Amount shall be determined using the following steps:

1) For each scenario, projected aggregate Accumulated Deficiencies are determined at the start of the projection (i.e., "time 0") and at the end of each projection year as the sum of the Accumulated Deficiencies for each contract grouping.

2) The Scenario Greatest Present Value is determined for each scenario based on the sum of the aggregate Accumulated Deficiencies and aggregate Starting Asset Amounts for the contracts for which the Aggregate Reserve is being computed.

3) The Scenario Greatest Present Values for all scenarios are then ranked from smallest to largest and the Conditional Tail Expectation Amount is the average of the largest 30 percent of these ranked values.

The projections shall be performed in accordance with Appendix 1. The actuary shall document the assumptions and procedures used for the projections and summarize the results obtained as described in Appendix 2 and Appendix 8.

E) Alternative Methodology. For variable deferred annuity contracts that contain either no guaranteed benefits or only GMDBs (i.e., no VAGLBs), the Conditional Tail Expectation Amount may be determined using the Alternative Methodology described in Appendix 4 rather than using the approach described in subsection D) above. However, in the event the approach described in subsection D) has been used in prior valuations the Alternative Methodology may not be used without approval from the Domiciliary Commissioner.

The Conditional Tail Expectation Amount for the group of contracts to which the Alternative Methodology is applied shall not be less than the aggregate Cash Surrender Value of those contracts.

The actuary shall document the assumptions and procedures used for the Alternative Methodology and summarize the results obtained as described in Appendix 2 and Appendix 8.

[7] The Scenario Greatest Present Value is therefore based on the greatest projected Accumulated Deficiency, in aggregate, for all contracts for which the Aggregate Reserve is computed hereunder, rather than based on the sum of the greatest projected Accumulated Deficiency for each grouping of contracts.

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F) Allocation of Results to Contracts. The Aggregate Reserve shall be allocated to the contracts falling within the scope of the Guideline using the method outlined in Appendix 6.

G) Reserve as of January 1, 2009. The reserve as of January 1, 2009 shall be the sum of the reserves from the asset adequacy analysis requirements in Actuarial Guideline XXXIV and Actuarial Guideline XXXIX.

Section V) Effective Date

The Guideline affects all contracts issued on or after January 1, 1981, effective December 31, 2009. Where the application of the Guideline produces higher reserves than the company had otherwise established by their previously used interpretation, such company may request a grade-in period, not to exceed three (3) years, from the Domiciliary Commissioner upon satisfactory demonstration of the previous interpretation and that such delay of implementation will not cause a hazardous financial condition or potential harm to its policyholders. The grading shall be done only on the reserves on the contracts in-force as of December 31, 2009. The reserves under the old basis and new basis shall be compared each year - 2/3 of the difference shall be subtracted from the reserve under the new basis in 2009 and 1/3 of the difference shall be subtracted from the reserve under the new basis in 2010.

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APPENDIX 1 - Determination of Conditional Tail Expectation Amount Based on Projections

A1.1) Projection of Accumulated Deficiencies

A) General Description of Projection. The projection of Accumulated Deficiencies shall be made ignoring Federal Income Tax and reflect the dynamics of the expected cash flows for the entire group of contracts, reflecting all product features, including the guarantees provided under the contracts. Insurance company expenses (including overhead and investment expense), fund expenses, contractual fees and charges, revenue sharing income received by the company (net of applicable expenses) and cash flows associated with any reinsurance or hedging instruments are to be reflected on a basis consistent with the requirements herein. Cash flows from any fixed account options shall also be included. Any market value adjustment assessed on projected withdrawals or surrenders shall also be included (whether or not the Cash Surrender Value reflects market value adjustments). Throughout the projection, where estimates are used, such estimates shall be on a Prudent Estimate basis.

Federal Income Tax shall not be included in the projection of Accumulated Deficiencies.

B) Grouping of Variable Funds and Subaccounts. The portion of the Starting Asset Amount held in the Separate Account represented by the variable funds and the corresponding account values may be grouped for modeling using an approach that recognizes the investment guidelines and objectives of the funds. In assigning each variable fund and the variable subaccounts to a grouping for projection purposes, the fundamental characteristics of the fund shall be reflected and the parameters shall have the appropriate relationship to the required calibration points of the S&P 500. The grouping shall reflect characteristics of the efficient frontier (i.e., returns generally cannot be increased without assuming additional risk).

An appropriate proxy for each variable subaccount shall be designed in order to develop the investment return paths. The development of the scenarios for the proxy funds is a fundamental step in the modeling and can have a significant impact on results. As such, the actuary must map each variable account to an appropriately crafted proxy fund normally expressed as a linear combination of recognized market indices (or sub-indices).

C) Grouping of Contracts. Projections may be performed for each contract inforce on the date of valuation or by grouping contracts into representative cells of model plans using all characteristics and criteria having a material impact on the size of the reserve. Grouping shall be the responsibility of the actuary but may not be done in a manner that intentionally understates the resulting reserve.

D) Modeling of Hedges. The appropriate costs and benefits of hedging instruments that are currently held by the company in support of the contracts falling under the scope of the Guideline shall be included in the projections. If the company is following a Clearly Defined Hedging Strategy and the hedging strategy meets the requirements of Appendix 7, the projections shall take into account the appropriate costs and benefits of hedge positions expected to be held in the future through the execution of that strategy.

To the degree either the currently held hedge positions or the hedge positions expected to be held in the future introduce basis, gap, price, or assumption risk, a suitable reduction for effectiveness of hedges shall be made. The actuary is responsible for verifying compliance with a Clearly Defined Hedging Strategy and the requirements in Appendix 7 for all hedge instruments included in the projections.

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While hedging strategies may change over time, any change in hedging strategy shall be documented and include an effective date of the change in strategy.

The use of products not falling under the scope of the Guideline (e.g., equity-indexed annuities) as a hedge shall not be recognized in the determination of Accumulated Deficiencies.

These requirements do not supersede any statutes, laws, or regulations of any state or jurisdiction related to the use of derivative instruments for hedging purposes and should not be used in determining whether a company is permitted to use such instruments in any state or jurisdiction.

Upon request of the company's domiciliary commissioner and for information purposes to show the effect of including future hedge positions in the projections, the company shall show the results of performing an additional set of projections reflecting only the hedges currently held by the company in support of the contracts falling under the scope of the Guideline. Because this additional set of projections excludes some or all of the derivative instruments, the investment strategy used may not be the same as that used in the determination of the Conditional Tail Expectation Amount.

E) Revenue Sharing.

1) Projections of Accumulated Deficiencies may include income from projected future Revenue Sharing, as defined in Section VII) net of applicable projected expenses ("Net Revenue Sharing Income") if the following requirements are met:
   a) The Net Revenue Sharing Income is received[8] by the company,[9]
   b) Signed contractual agreement or agreements are in place as of the valuation date and support the current payment of the Net Revenue Sharing Income; and
   c) The Net Revenue Sharing Income is not already accounted for directly or indirectly as a company asset.

2) The amount of Net Revenue Sharing Income to be used shall reflect the actuary's assessment of factors that include but are not limited to the following (not all of these factors will necessarily be present in all situations):
   a) The terms and limitations of the agreement(s), including anticipated revenue, associated expenses and any contingent payments incurred or made by either the company or the entity providing the Net Revenue Sharing as part of the agreement(s);
   b) The relationship between the company and the entity providing the Net Revenue Sharing Income that might affect the likelihood of payment and the level of expenses;
   c) The benefits and risks to both the company and the entity paying the Net Revenue Sharing Income of continuing the arrangement.

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[8] For purposes of this section, Net Revenue Sharing Income is considered to be received by the company if it is paid directly to the company through a contractual agreement with either the entity providing the Net Revenue Sharing Income or an affiliated company that receives the Net Revenue Sharing Income. Net Revenue Sharing Income would also be considered to be received, if it is paid to a subsidiary that is owned by the company and if 100% of the statutory income from that subsidiary is reported as statutory income of the company. In this case the actuary needs to assess the likelihood that future Net Revenue Sharing Income is reduced due to the reported statutory income of the subsidiary being less than future Net Revenue Sharing Income received.

[9] As in other sections of the Guideline, the term "the company" is used exclusively as a reference to the insurance company writing the business falling under the scope of the Guideline. The term "entity providing the Net Revenue Sharing Income" is self-explanatory and is used consistently in this subsection.

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d) The likelihood that the company will collect the Net Revenue Sharing Income during the term(s) of the agreement(s) and the likelihood of continuing to receive future revenue after the agreement(s) has ended;

e) The ability of the company to replace the services provided to it by the entity providing the Net Revenue Sharing Income or to provide the services itself, along with the likelihood that the replaced or provided services will cost more to provide; and

f) The ability of the entity providing the Net Revenue Sharing Income to replace the services provided to it by the company or to provide the services itself, along with the likelihood that the replaced or provided services will cost more to provide.

3) The amount of projected Net Revenue Sharing Income shall also reflect a margin (which decreases the assumed Net Revenue Sharing Income) directly related to the uncertainty of the revenue. The greater the uncertainty, the larger the margin. Such uncertainty is driven by many factors including the potential for changes in the securities laws and regulations, mutual fund board responsibilities and actions, and industry trends. Since it is prudent to assume that uncertainty increases over time, a larger margin shall be applied as time that has elapsed in the projection increases.

4) All expenses required or assumed to be incurred by the company in conjunction with the arrangement providing the Net Revenue Sharing Income, as well as any expenses assumed to be incurred by the company in conjunction with the assumed replacement of the services provided to it (as discussed in subsection 2)e) above) shall be included in the projections as a company expense under the requirements of section A1.1)A). In addition, expenses incurred by either the entity providing the Net Revenue Sharing Income or an affiliate of the company shall be included in the applicable expenses discussed in section A1.1)A) and A1.1)E)1) that reduce the Net Revenue Sharing Income.

5) The actuary is responsible for reviewing the revenue sharing agreements, verifying compliance with these requirements and documenting the rationale for any source of Net Revenue Sharing Income used in the projections.

6) The amount of Net Revenue Sharing Income assumed in a given scenario shall not exceed the sum of a and b, where:

a) Is the contractually guaranteed Net Revenue Sharing Income projected under the scenario, and

b) The actuary's estimate of non-contractually guaranteed Net Revenue Sharing Income before reflecting any margins for uncertainty multiplied by the following factors:

(i) 1.0 in the first projection year;
(ii) 0.9 in the second projection year;
(iii) 0.8 in the third projection year;
(iv) 0.7 in the fourth projection year;
(v) 0.6 in the fifth projection year;
(vi) 0.5 in the sixth and all subsequent projection years. The resulting amount of non-contractually guaranteed Net Revenue Sharing Income after application of this factor shall not exceed 0.25% per year on separate account assets in the sixth and all subsequent projection years.

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F) Length of Projections. Projections of Accumulated Deficiencies shall be run for as many future years as needed so that no materially greater reserve value would result from longer projection periods.

G) AVR/IMR. The AVR and the IMR shall be handled consistently with the treatment in the company's cash flow testing.

A1.2) Determination of Scenario Greatest Present Values

A) Scenario Greatest Present Values. For a given scenario, the Scenario Greatest Present Value is the sum of:

1) The greatest present value, as of the projection start date, of the projected Accumulated Deficiencies defined in Section III)B)6); and

2) The Starting Asset Amount.

B) Discount Rates. In determining the Scenario Greatest Present Values, Accumulated Deficiencies shall be discounted using the same interest rates at which positive cash flows are invested, as determined in section A1.4)D). Such interest rates shall be reduced to reflect expected credit losses. Note that the interest rates used do not include a reduction for Federal Income Taxes.

A1.3) Projection Scenarios

A) Minimum Required Scenarios. The number of scenarios for which projected greatest present values of Accumulated Deficiencies shall be computed shall be the responsibility of the actuary and shall be considered to be sufficient if any resulting understatement in total reserves, as compared with that resulting from running additional scenarios, is not material.

B) Scenario Calibration Criteria. Returns for the groupings of variable funds shall be determined on a stochastic basis such that the resulting distribution of the Gross Wealth Ratios of the scenarios meets the Scenario Calibration Criteria specified in Appendix 5.

A1.4) Projection Assets

A) Starting Asset Amount. For the projections of Accumulated Deficiencies, the value of assets at the start of the projection shall be set equal to the approximate value of statutory reserves at the start of the projection. Assets shall be valued consistently with their annual statement values. The amount of such asset values shall equal the sum of the following items, all as of the start of the projection:

1) All of the Separate Account assets supporting the contracts;

2) An amount of assets held in the General Account equal to the approximate value of statutory reserves as of the start of the projections less the amount in 1), above.

In many instances the initial General Account assets may be negative, resulting in a projected interest expense. General Account assets chosen for use as described above shall be selected on a consistent basis from one reserve valuation hereunder to the next.

Any hedge assets meeting the requirements described in section A1.1)D) shall be reflected in the projections and included with other General Account assets under item 2) above. To the extent the sum of the value of such hedge assets and the value of assets in item 1) above is greater than

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the approximate value of statutory reserves as of the start of the projections, then item 2) above may include enough negative General Account assets or cash such that the sum of items 1) and 2) above equals the approximate value of statutory reserves as of the start of the projections.[10]

The actuary shall document which assets were used as of the start of the projection, the approach used to determine which assets were chosen and shall verify that the value of the assets equals the approximate value of statutory reserves at the start of the projection.

B) Valuation of Projected Assets. For purposes of determining the projected Accumulated Deficiencies, the value of projected assets shall be determined in a manner consistent with their value at the start of the projection. For assets assumed to be purchased during a projection, the value shall be determined in a manner consistent with the value of assets at the start of the projection that have similar investment characteristics.

C) Separate Account Assets. For purposes of determining the Starting Asset Amounts in subsection A) and the valuation of projected assets in subsection B), assets held in a Separate Account shall be summarized into asset categories determined by the actuary as discussed in section A1.1)B).

D) General Account Assets. General Account assets shall be projected net of projected defaults, using assumed investment returns consistent with their book value and expected to be realized in future periods as of the date of valuation. Initial assets that mature during the projection and positive cash flows projected for future periods shall be invested at interest rates, which, at the option of the actuary, are one of the following:

1) The forward interest rates implied by the swap curve[11] in effect as of the valuation date,

2) The 200 interest rate scenarios available as prescribed for Phase I, C-3 Risk Based Capital calculation, coupled with the Separate Account return scenarios by mating them up with the first 200 such scenarios and repeating this process until all Separate Account return scenarios have been mated with a Phase I scenario, or

3) Interest rates developed for this purpose from a stochastic model that integrates the development of interest rates and the Separate Account returns.

When the option described in 1) above (the forward interest rates implied by the swap curve) is used, an amount shall be subtracted from the interest rates to reflect the current market expectations about future interest rates using the process described in section A1.5)A).

The actuary may switch from 1) to 2), from 1) to 3) or from 2) to 3) from one valuation date to the next, but may not switch in the other direction without approval from the Domiciliary Commissioner.

A1.5) Projection of Annuitization Benefits (including GMIBs)

A) Assumed Annuitization Purchase Rates at Election. For purposes of projecting annuitization benefits (including annuitizations stemming from the election of a GMIB), the projected annuitization purchase rates shall be determined assuming that market interest rates available at the time of election are the interest rates used to project General Account Assets, as determined in

[10] Further elaboration on potential practices with regard to this issue may be included in a practice note.

[11] The swap curve is based on the Federal Reserve H.15 interest swap rates. The rates are for a Fixed Rate Payer in return for receiving three month LIBOR. One place where these rates can be found is http://www.federalreserve.gov/releases/h15/default.htm.

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A1.4)D). However, where the interest rates used to project General Account Assets are based upon the forward interest rates implied by the swap curve in effect as of the valuation date (i.e., the option described in section A1.4)D)1) is used, herein referred to as a point estimate), the margin between the cost to purchase an annuity using the guaranteed purchase basis and the cost using the interest rates prevailing at the time of annuitization shall be adjusted as discussed below.

If a point estimate is being used, it is important that the margin assumed reflects the current market expectations about future interest rates at the time of annuitization, as described more fully below, and a downward adjustment to the interest rate assumed in the purchase rate basis. The latter adjustment is necessary since a greater proportion of contractholders will select an annuitization benefit when it is worth more than the cash surrender value than when it is not. As a practical matter, this effect can be approximated by using an interest rate assumption in the purchase rate basis that is 0.30 percent below that implied by the forward swap curve, as described below.

To calculate market expectations of future interest rates, the par or current coupon swap curve is used (documented daily in Federal Reserve H.15 with some interpolation needed). Deriving the expected rate curve from this swap curve at a future date involves the following steps:

1) Calculate the implied zero-coupon rates. This is a well documented "bootstrap" process. For this process we use the equation $100(C^n * (v + v^2 + \ldots + v^n) + 100v^n$ where the "v^t" terms are used to stand for the discount factors applicable to cash flows 1,2,…n years hence and C^n is the n-year swap rate. Each of these discount factors are based on the forward curve and therefore are based on different rates, however (i.e. "v^2" does not equal v times v). Given the one year swap rate, one can solve for v. Given v and the two year swap rate one can then back into v^2, and so on.

2) Convert the zero coupon rates to one year forward rates by calculating the discount factor needed to get from v^{t-1} to v^t.

3) Develop the expected rate curve.

   This recognizes that, for example, the five-year forward one-year rate is not the rate the market expects on one year instruments five years from now. The reason is that as the bond gets shorter the "risk premium" in the rate diminishes. This is sometimes characterized as "rolling down" the yield curve. Table A shows the historic average risk premium at various durations. From this table, one can see that to get the rate the market expects a 1 year swap to have five years from now; one must subtract the risk premium associated with six year rates (.95%) and add back that associated with 1 year rates (.50%). This results in a net reduction of .45%.

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Table A: Risk Premium by Duration

Duration	Risk Premium	Duration	Risk Premium
1	0.500%	6	0.950%
2	0.750%	7	1.000%
3	0.750%	8	1.100%
4	0.850%	9+	1.150%
5	0.900%		

The Exhibit below combines the three steps. Columns A through D convert the swap curve to the implied forward rate for each future payment date. Columns E through H remove the current risk premium, add the risk premium t years in the future (the Exhibit shows the rate curve five years in the future), and uses that to get the discount factors to apply to the 1 year, 2 year,…5 year cash flows 5 years from now.

Exhibit: Derivation of discount rates expected in the future

	A	B	C	D	E	F	G	H
1								
2	Projection Years	Swap Curve Rate	PV of Zero Coupon	Forward 1 Year Rate	Risk Premium	Risk Premium 5 Years Out	Expected Forward Rate In Five Years	PV of Zero Coupon In 5 Years
3								
4	1	2.57%	0.97494	2.5700%	0.50000%			
5	2	3.07%	0.94118	3.5879%	0.75000%			
6	3	3.44%	0.90302	4.2251%	0.75000%			
7	4	3.74%	0.86221	4.7208%	0.85000%			
8	5	3.97%	0.82134	5.0010%	0.90000%			
9	6	4.17%	0.77912	5.3249%	0.95000%	0.50000%	4.8749%	0.95352
10	7	4.34%	0.73868	5.5557%	1.00000%	0.75000%	5.3057%	0.90547
11	8	4.48%	0.69894	5.6860%	1.10000%	0.75000%	5.3360%	0.85961
12	9	4.60%	0.66050	5.8209%	1.15000%	0.85000%	5.5209%	0.81463
13	10	4.71%	0.62303	6.0131%	1.15000%	0.90000%	5.7631%	0.77024
14	Cell formulas for Projection Year 10:		=(1-B13*SUM(C4:C12))/(1+B13)	=C12/C13-1		=E8	=D13-E13+F13	=H12/(1+G13)

Where interest rates are projected stochastically using an integrated model, although one would "expect" the interest rate n years hence to be that implied for an appropriate duration asset by the forward swap curve as described above, there is a steadily widening confidence interval about that point estimate with increasing time until the annuitization date. The "expected margin" in the

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purchase rate is less than that produced by the point estimate based on the expected rate, since a greater proportion of contractholders will have an annuitization benefit whose worth is in excess of cash surrender value when margins are low than when margins are high. As a practical matter, this effect can be approximated by using a purchase rate margin based on an earnings rate .30 percent below that implied by the forward swap curve. If a stochastic model of interest rates is used instead of a point estimate then no such adjustment is needed.

B) Projected Election of Guaranteed Minimum Income Benefit and other Annuitization Options. For contracts projected to elect annuitization options (including annuitizations stemming from the election of a GMIB), the projections may assume one of the following at the actuary's option:

1) The contract is treated as if surrendered at an amount equal to the statutory reserve that would be required at such time for the payout annuity benefits, or

2) The contract is assumed to stay inforce, the projected periodic payments are paid, and the Working Reserve is equal to one of the following:
   a) The statutory reserve required for the payout annuity, if it is a fixed payout annuity, or
   b) If it is a variable payout annuity, the Working Reserve for a variable payout annuity as defined in Section III)B)5).

If the projected payout annuity is a variable payout annuity containing a floor guarantee (such as a GPAF) under a specified contractual option, only option 2) above shall be used.

Where mortality improvement is used to project future annuitization purchase rates, as discussed in A) above, mortality improvement shall also be reflected on a consistent basis in either the determination of the reserve in 1) above or the projection of the periodic payments in 2) above.

A1.6) Relationship to Risk Based Capital Requirements

A) The Guideline anticipates that the projections described herein may be used for the determination of Risk Based Capital (the "RBC requirements") for some or all of the contracts falling within the scope of the Guideline. There are several differences between the requirements of the Guideline and the RBC requirements, and among them are two major differences. First, the Conditional Tail Expectation level is different (CTE (70) for the Guideline and CTE (90) for the RBC requirements). Second, the projections described in the Guideline are performed on a basis that ignores Federal Income Tax. That is, under the Guideline, the Accumulated Deficiencies do not include projected Federal Income Tax and the interest rates used to discount the Scenario Greatest Present Value (i.e., the interest rates determined in section A1.4)D)) contain no reduction for Federal Income Tax. Under the RBC requirements, the projections do include projected Federal Income Tax and the discount interest rates used in the RBC requirement do contain a reduction for Federal Income Tax.

B) To further aid the understanding of the Guideline and any instructions relating to the RBC requirement, it is important to note the equivalence in meaning between the following terms, subject to the differences noted above:

1) The amount that is added to the Starting Asset Amount in Section III)B)6) of the Guideline is similar to the Additional Asset Requirement referenced in the RBC requirement.

2) The Conditional Tail Expectation Amount referenced in the Guideline is similar to the Total Asset Requirement referenced in the RBC requirement.

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A1.7) Compliance with Actuarial Standards of Practice (ASOPs)

When determining the Conditional Tail Expectation Amount using projections, the analysis shall conform to the Actuarial Standards of Practice as promulgated from time to time by the Actuarial Standards Board.

A1.8) Compliance with Principles

When determining the Conditional Tail Expectation Amount using projections, any interpretation and application of the requirements of the Guideline shall follow the principles discussed in the Section I) Background.

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APPENDIX 2 - Reinsurance and Statutory Reporting Issues

A2.1) Treatment of Reinsurance Ceded in the Aggregate Reserve

A) Aggregate Reserve Net of and Prior to Reinsurance Ceded. As noted in Section IV)B), the Aggregate Reserve is determined net of reinsurance ceded. Therefore, it is necessary to determine the components needed to determine the Aggregate Reserve (i.e., the Standard Scenario Amount, and either the Conditional Tail Expectation Amount determined using projections or the Conditional Tail Expectation Amount determined using the Alternative Methodology) on a net of reinsurance basis. In addition, as noted in Section IV)B), it may be necessary to determine the Aggregate Reserve determined on a "direct" basis, or prior to reflection of reinsurance ceded. Where this is needed, each of these components shall be determined prior to reinsurance. Sections B) through D) below discuss methods necessary to determine these components on both a "net of reinsurance" and a "prior to reinsurance" basis. Note that due allowance for reasonable approximations may be used where appropriate.

B) Conditional Tail Expectation Amount Determined using Projections. In order to determine the Aggregate Reserve net of reinsurance ceded, Accumulated Deficiencies, Scenario Greatest Present Values, and the resulting Conditional Tail Expectation Amount shall be determined reflecting the effects of reinsurance treaties that meet the statutory requirements that would allow the treaty to be accounted for as reinsurance within the projections. This involves including, where appropriate, all anticipated reinsurance premiums or other costs and all reinsurance recoveries, where both premiums and recoveries are determined by recognizing any limitations in the reinsurance treaties, such as caps on recoveries or floors on premiums.

In order to determine the Conditional Tail Expectation Amount prior to reinsurance ceded, Accumulated Deficiencies, Scenario Greatest Present Values, and the resulting Conditional Tail Expectation Amount shall be determined ignoring the effects of reinsurance within the projections. One acceptable approach involves a projection based on the same Starting Asset Amount as for the Aggregate Reserve net of reinsurance and by ignoring, where appropriate, all anticipated reinsurance premiums or other costs and all reinsurance recoveries in the projections.

C) Conditional Tail Expectation Amount Determined using the Alternative Methodology. If a company chooses to use the Alternative Methodology, as allowed in Section IV)E), it is important to note that the methodology produces reserves on a prior to reinsurance ceded basis. Therefore, where reinsurance is ceded, the Alternative Methodology must be modified to reflect the reinsurance costs and reinsurance recoveries under the reinsurance treaties in the determination of the Aggregate Reserve net of reinsurance. In addition, the Alternative Methodology, unadjusted for reinsurance, shall be applied to the contracts falling under the scope of the Guideline to determine the Aggregate Reserve prior to reinsurance.

D) Standard Scenario Amount. Where reinsurance is ceded, the Standard Scenario Amount shall be calculated as described in Appendix 3 to reflect the reinsurance costs and reinsurance recoveries under the reinsurance treaties. If it is necessary, the Standard Scenario Amount shall be calculated prior to reinsurance ceded using the methods described in Appendix 3, but ignoring the effects of the reinsurance ceded.

A.2.2) Aggregate Reserve to be held in the General Account

The amount of the reserve held in the General Account shall not be less than the excess of the Aggregate Reserve over the sum of the Basic Reserve, as defined in section A3.2), attributable to the variable portion of all such contracts.

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A.2.3) Actuarial Certification and Memorandum

A) Actuarial Certification. Actuarial Certification of the work done to determine the Aggregate Reserve shall be required. The actuary shall certify that the work performed has been done in a way that substantially complies with all applicable Actuarial Standards of Practice. The scope of this certification does not include an opinion on the adequacy of the Aggregate Reserve,[12] the company's surplus or the company's future financial condition. The actuary shall also note any material change in the model or assumptions from that used previously and the estimated impact of such changes.

Appendix 8 contains more information on the contents of the required Actuarial Certification.

B) Required Memorandum. An actuarial memorandum shall be constructed documenting the methodology and assumptions upon which the Aggregate Reserve is determined. The memorandum shall also include sensitivity tests that the actuary feels appropriate, given the composition of the company's block of business (i.e., identifying the key assumptions that, if changed, produce the largest changes in the Aggregate Reserve). This memorandum shall have the same confidential status as the actuarial memorandum supporting the actuarial opinion[13] and shall be available to regulators upon request.

Appendix 8 contains more information on the contents of the required memorandum.

C) Conditional Tail Expectation Amount Determined using the Alternative Methodology. Where the Alternative Methodology is used, there is no need to discuss the underlying assumptions and model in the required memorandum. Certification that expense, revenue, fund mapping, and product parameters have been properly reflected, however, shall be required.

Appendix 8 contains more information on the contents of the required Actuarial Certification and memorandum.

D) Material Changes. If there is a material change in results due to a change in assumptions from the previous year, the memorandum shall include a discussion of such change in assumptions and an estimate of the impact it has on the results.

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[12] The adequacy of total company reserves, which includes the Aggregate Reserve, is addressed in the company's Actuarial Opinion as required by the NAIC Model Actuarial Opinion and Memorandum Regulation.

[13] This is consistent with Section 3D(8) of the Standard Valuation Law, which states: "Except as provided in Paragraphs (12), (13) and (14), documents, materials or other information in the possession or control of the Department of Insurance that are a memorandum in support of the opinion, and any other material provided by the company to the commissioner in connection with the memorandum, shall be confidential by law and privileged, shall not be subject to [insert open records, freedom of information, sunshine or other appropriate phrase], shall not be subject to subpoena, and shall not be subject to discovery or admissible in evidence in any private civil action. However, the commissioner is authorized to use the documents, materials or other information in the furtherance of any regulatory or legal action brought as a part of the commissioner's official duties."

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APPENDIX 3 - Standard Scenario Requirements

A3.1) Overview

A) Application to Determine Reserves. A Standard Scenario Reserve shall be determined for each of the contracts falling under the scope of the Guideline by applying section A3.3). This includes those contracts to which the Alternative Methodology is applied.

The Standard Scenario Reserve for a contract with guaranteed living benefits or guaranteed death benefits is based on a projection of the account value based on specified returns for supporting assets equal to the account value. An initial drop is applied to the supporting assets and account value on the valuation date. Subsequently, account values are projected at specified rates earned by the supporting assets less contract and fund charges. The assumptions for the projection of account values and margins are prescribed in section A3.3)C). For any contract with guarantees the Standard Scenario Reserve includes the greatest present value of the benefit payments in excess of account values applied over the present value of revenue produced by the margins.

B) The Standard Scenario Amount

1) The Standard Scenario Amount is defined in section A3.3)C) of this Guideline as the aggregate of the reserves determined by applying the Standard Scenario Method to each of the contracts falling under the scope of the Guideline. Except as provided in subsection A3.3)B)1), the Standard Scenario Amount equals the sum over all contracts of the Standard Scenario Reserve determined for each contract as of the statement date as described in A3.1)B)2).

2) The Standard Scenario Method requires the Standard Scenario Amount to not be less than the sum over all contracts of the Standard Scenario Reserve determined for the contract as of the statement date as described in section A3.3), where the Discount Rate is equal to *DR*, which is defined as the valuation interest rate specified by the Standard Valuation Law for annuities valued on an issue year basis, using Plan Type A and a Guarantee Duration greater than 10 years but not more than 20 years. The presence of guarantees of interest on future premiums and/or cash settlement options is to be determined using the terms of the contracts.

C) Illustrative Application of the Standard Scenario to a Projection or Model Office. If the Conditional Tail Expectation Amount is determined based on a projection of an inforce prior to the statement date and/or by the use of a model office, which is a grouping of contracts into representative cells, then additional determinations of A3.1)B)2) shall be performed on the prior inforce and/or model office. The calculations are for illustrative purposes to assist in validating the reasonableness of the projection and/or the model office.

The following table identifies the illustrative additional determinations required by this section using the Discount Rate, *DR*, as defined in A3.1)B)2). The additional determinations required are based on how the Conditional Tail Expectation projection or Alternative Methodology is applied. For completeness, the table also includes the determinations required by section A3.1)B)2).

1) Run A in the table is required for all companies by section A3.1)B)2). No additional determinations are required if a company's stochastic or alternative methodology result is calculated on individual contracts as of the statement date.

2) A company that uses a model office as of the statement date to determine its stochastic or alternative methodology result must provide an additional determination for the model office based on the Discount Rate *DR*, run B.

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3) A company that uses a contract by contract listing of a prior inforce to determine its stochastic or alternative methodology with result PS and then projects requirements to the statement date with result S must provide an additional determination for the prior inforce based on the Discount Rate *DR*, run C.

4) A company that uses a model office of a prior inforce to determine its stochastic or alternative methodology requirements with result PM and then projects requirements to the statement date with result S must provide an additional determination for the prior model office based on the Discount Rate *DR*, run D.

Standard Scenario Run	Guideline Variations	Validation Measures	
		Model Office Projection	Projection of Prior Inforce
A. Valuation on the statement date on inforce contracts with discount rate *DR*	None	None	None
B. Valuation on the statement date on the model office with discount rate *DR*	If not material to model office validation	A/B compare to 1.00	None
C. Valuation on a prior inforce date on prior inforce contracts with discount rate *DR*	If not material to projection validation	None	A/C - S/PS compare to 0
D. Valuation on a prior inforce date on a model office with discount rate *DR*	If not material to model office or projection validation.	(A/D – S/PM) compare to 0	

Modification of the requirements in Section A3.3) when applied to a prior inforce or a model office is permitted if such modification facilitates validating the projection of inforce or the model office. All such modifications should be documented.

A3.2) Basic and Basic Adjusted Reserve – Application of Actuarial Guideline XXXIII

A) The Basic Reserve for a given contract shall be determined by applying statutory statement valuation requirements applicable immediately prior to adoption of the Guideline to the contract ignoring any guaranteed death benefits in excess of account values or guaranteed living benefits applying proceeds in excess of account values.

B) The calculation of the Basic Reserve shall assume a return on separate account assets based on the year of issue statutory valuation rate less appropriate asset based charges, including charges for any guaranteed death benefits or guaranteed living benefits. It shall also assume a return for any fixed separate account and general account options equal to the rates guaranteed under the contract.

C) The Basic Reserve shall be no less than the Cash Surrender Value on the valuation date, as defined in Section III)B) of the Guideline.

D) The Basic Adjusted Reserve shall be that determined based on A3.2)A) and A3.2)B) except in A3.2)A) free partial withdrawal provisions shall be disregarded when determining surrender charges in applying the statutory statement valuation requirement prior to adoption of the Guideline. Section A3.2)C) shall not apply to the Basic Adjusted Reserve.

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A3.3) Standard Scenario Reserve - Application of the Standard Scenario Method

A) General. Where not inconsistent with the guidance given here, the process and methods used to determine the Standard Scenario Reserve under the Standard Scenario Method shall be the same as required in the calculation of the Conditional Tail Expectation Amount as described in Section IV) of the Guideline. Any additional assumptions needed to determine the Standard Scenario Reserve shall be explicitly documented.

B) Results for the Standard Scenario Method. For each contract, the Standard Scenario Reserve is the reserve based on 1) or 2) where:

1) For contracts without any guaranteed benefits, as defined in Section III)A) of the Guideline and where not subsequently disapproved by the Domiciliary Commissioner, the Standard Scenario Reserve is the Basic Reserve described in section A3.2)A), A3.2)B) and A3.2)C).

2) For all other contracts the Standard Scenario Reserve is equal to the greater of Cash Surrender Value on the valuation date, as defined in Section III)B) of the Guideline, and the quantity a) + b) - c), where:
   a) Is the Basic Adjusted Reserve calculated for the contract, as described in section A3.2)D);
   b) Is the greater of zero and the greatest present value at the Discount Rate measured as of the end of each projection year of the negative of the Accumulated Net Revenue described below using the assumptions described in A3.3)C). The Accumulated Net Revenue at the end of a projection year is equal to (i) + (ii) - (iii), where:
      (i) Is the Accumulated Net Revenue at the end of the prior projection year accumulated at the Discount Rate to the end of the current projection year; the Accumulated Net Revenue at the beginning of the projection (i.e., time zero) is zero;
      (ii) Are the margins generated during the projection year on account values accumulated at the Discount Rate to the end of the projection year (the factors and assumptions to be used in calculating the margins and account values are in A3.3)C)); and
      (iii) Are the contract benefits in excess of account values applied, Individual reinsurance premiums and Individual reinsurance benefits payable or receivable during the projection year accumulated at the Discount Rate to the end of the projection year. Individual reinsurance is defined in A3.3)C)2).
   c) Is the contract's allocation of the value of hedges and Aggregate reinsurance as described in section A3.3)D). Aggregate reinsurance is defined in section A3.3)C)2).

No reinsurance shall be considered in the Standard Scenario Amount if such reinsurance does not meet the statutory requirements that would allow the treaty to be accounted for as reinsurance. The actuary shall determine the projected reinsurance premiums and benefits reflecting all treaty limitations and assuming any options in the treaty to the other party are exercised to decrease the value of reinsurance to the reporting company (e.g., options to increase premiums or terminate coverage). The positive value of any reinsurance treaty that is not guaranteed to the insurer or its successor shall be excluded from the value of reinsurance. The commissioner may require the exclusion of a reinsurance treaty or any portion of a reinsurance treaty if the terms of the reinsurance) treaty or the portion required to be excluded serves solely to reduce the calculated

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Standard Scenario Reserve without also reducing risk on scenarios similar to those used to determine the Conditional Tail Expectation Reserve. Any reinsurance reflected in the Standard Scenario Reserve shall be appropriate to the business and not merely constructed to exploit 'foreknowledge' of the components of the Standard Scenario Method.

C) Assumptions for use in paragraph A3.3)B)2)b) for Accumulated Net Revenue and Account Values.

1) Account Value Return Assumptions. The bases for return assumptions on assets supporting the Account Value are shown in Table I. The "Initial" returns shall be applied to the account value supported by each asset class on the valuation date as immediate drops, resulting in the Account Value at time 0. The "Year 1," "Years 2 – 5," and "Year 6+" returns for the equity, bond and balanced classes are gross annual effective rates of return and are used (along with other decrements and/or increases) to produce the Account Value as of the end of each projection interval. For purposes of this section, money market funds supporting Account Value shall be considered part of the Bond class.

The Fixed Fund rate is the greater of the minimum rate guaranteed in the contract or 4% but not greater than the current rates being credited to Fixed Funds on the valuation date.

Account Values shall be projected using the appropriate gross rates from Table I for equity, bond and balanced classes applied to the supporting assets less all fund and contract charges according to the provisions of the funds and contract and applying the Fixed funds rate from Table I as if it were the resulting net rate after deduction for fund or contract charges.

The annual margins on Account Value are defined as follows:

a) During the Surrender Charge Amortization Period, as determined following the step outlined in section A3.3.E) below:
   (i) 0.20% of Account Value; plus
   (ii) Any Net Revenue Sharing Income, as defined in section A1.1)E), that is contractually guaranteed to the insurer and its liquidator, receiver, and statutory successor; plus
   (iii) For all of the guaranteed living benefits of a given contract combined,[14] the greater of:
      - 0.20% of Account Value; or
      - Explicit and optional contract charges for guaranteed living benefits; plus
   (iv) For all guaranteed death benefits of a given contract combined,[15] the greater of:
      - 0.20% of Account Value; or
      - Explicit and optional contract charges for guaranteed death benefits.

b) After the Surrender Charge Amortization Period:

[14] This excludes any guaranteed living benefit that is added to the contract simply for the purpose of increasing the revenue allowed under this section.

[15] This excludes any guaranteed death benefit that is added to the contract simply for the purpose of increasing the revenue allowed under this section.

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The amount determined in a) above; plus 50% of the excess, if any, of all contract charges (excluding Net Revenue Sharing Income) over the sum of a)(i) , a)(iii) and a)(iv) above.

However, on fixed funds after the surrender charge period, a margin of up to the amount in a) above plus .4% may be used.

Table I

	Initial	Year 1	Years 2 – 5	Year 6+
Equity Class	-13.5%	0%	4.0%	5.50%
Bond Class	0%	0%	4.85%	4.85%
Balanced Class	-8.1%	0%	4.34%	5.24%
Fixed Separate Accounts and General Account (net)	0%	Fixed Fund Rate	Fixed Fund Rate	Fixed Fund Rate

2) Reinsurance Credit. Individual reinsurance is defined as reinsurance where the total premiums for and benefits of the reinsurance can be determined by applying the terms of the reinsurance to each contract covered without reference to the premiums or benefits of any other contract covered and summing the results over all contracts covered. Reinsurance that is not Individual is Aggregate.

Individual reinsurance premiums projected to be payable on ceded risk and receivable on assumed risk shall be included in the Projected Net Revenue. Similarly, Individual reinsurance benefits projected to be receivable on ceded risk and payable on assumed risk shall be included in the Projected Net Revenue. No Aggregate reinsurance shall be included in Projected Net Revenue.

3) Lapses, Partial Withdrawals, and In-The-Moneyness. Partial withdrawals elected as guaranteed living benefits, see A3.3)C)7), or required contractually (e.g., a contract operating under an automatic withdrawal provision on the valuation date) are to be deducted from the Account Value in each projection interval consistent with the projection frequency used, as described in A3.3)C)6), and according to the terms of the contract. No other partial withdrawals, including free partial withdrawals, are to be deducted from Account Value. All lapse rates should be applied as full contract surrenders.

For purposes of determining the dynamic lapse assumptions shown in Table II below, a guaranteed living benefit is in the money (ITM) for any projection interval if the Account Value at the beginning of the projection interval is less than the Current Value of the guaranteed living benefit (as defined below) also at the beginning of that projection interval.

The Current Value of the guaranteed living benefit at the beginning of any projection interval is either the amount of the current lump sum payment (if exercisable) or the present value of future lump sum or income payments. More specific guidance is provided below. For the purpose of determining the present value, the discount rate shall be equal *DR* as defined in A3.1)B)2). If future living benefit payments are life contingent (i.e., either the right of future exercise or the right to future income benefits expires with

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the death of the annuitant or the owner), then the company shall determine the present value of such payments using the mortality table specified in A3.3)C)5).

If a guaranteed living benefit is exercisable (withdrawal can start or, in the case of a GMWB, has begun) at the beginning of the projection interval, then the Current Value of the guaranteed living benefit shall be determined assuming immediate or continued exercise of that benefit.

If a guaranteed living benefit is not exercisable (e.g., due to minimum age or duration requirements) at the beginning of that projection interval, then the Current Value of the guaranteed living benefit shall be determined assuming exercise of the guaranteed living benefit at the earliest possible future projection interval. If the right to exercise the guaranteed living benefit is contingent on the survival of the annuitant or the owner, then the Current Value of the guaranteed living benefit shall assume survival to the date of exercise using the mortality table specified in A3.3)C)5).

Determination of the Current Value of a guaranteed living benefit that is exercisable or payable at a future projection interval shall take account of any guaranteed growth in the basis for the guarantee (e.g., where the basis grows according to an index or an interest rate).

For a GMWB, the Current Value shall be determined assuming the earliest penalty-free withdrawal of guaranteed benefits after withdrawals begin and by applying the constraints of any applicable maximum or minimum withdrawal provisions. If the GMWB is currently exercisable and the right to future GMWB payments is contingent upon the survival of the annuitant or owner, then the Current Value shall assume survival using the mortality table specified in A3.3)C)5). After a GMWB that has payments that are contingent upon the survival of the annuitant or owner has commenced, then the Current Value shall assume survival using the Annuity 2000 Mortality Table.

For an unexercised GMIB, the Current Value shall be determined assuming the option with a reserve closest to the reserve for a 10 year certain and life option. The reserve values and the value of the GMIB on the assumed date of exercise shall be determined using the discount rate *DR* specified in A3.1)B)2) and for life contingent payments, the Annuity 2000 Mortality Table. The Current Value of an unexercised GMIB, however, shall be set equal to the Account Value if the contractholder can receive higher income payments on the assumed date of exercise by electing the same option under the normal settlement option provisions of the contract.

For the purpose of applying the lapse assumptions specified in Table II below or contractholder elections rates specified in A3.3)C)7), the contract shall be considered "out of the money" (OTM) for a projection interval if the Current Value of the guaranteed living benefit at the beginning of the projection interval is less than or equal to the Account Value at the beginning of the same projection interval. If the Current Value of the guaranteed living benefit at the beginning of the projection interval is greater than the Account Value also at the beginning of the projection interval, the contract shall be considered 'in the money' (ITM) and the percent ITM shall equal:

100 * ((Current Value of the guaranteed living benefit /Account Value) - 1)

If a contract has multiple living benefit guarantees then the guarantee having the largest Current Value shall be used to determine the percent in the money.

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Table II - Lapse Assumptions

	During Surrender Charge Period	After Surrender Charge Period		
Death Benefit Only Contracts	5%	10%		
All Guaranteed Living Benefits OTM	5%	10%		
		ITM < 10%	10%<=ITM<20%	20%<=ITM
Any Guaranteed Minimum Accumulation Benefit ITM	2%	2%	0%	0%
Any Other Guaranteed Living Benefits ITM	3%	7%	5%	2%

4) Account Transfers and Future Deposits. No transfers between funds shall be assumed in the projection used to the determine the greatest present value amount required under section A3.3)B)2)b) unless required by the contract (e.g. transfers from a dollar cost averaging fund or contractual rights given to the insurer to implement a contractually specified portfolio insurance management strategy for a contract operating under an automatic re-balancing option). When transfers must be modeled, to the extent not inconsistent with contract language, the allocation of transfers to funds must be in proportion to the contract's current allocation to funds.

Margins generated during a projection interval on funds supporting account value are transferred to the Accumulation of Net Revenue and are subsequently accumulated at the Discount Rate. Assets for each class supporting account values are to be reduced in proportion to the amount held in each asset classes at the time of transfer of margins or any portion of Account Value applied to the payment of benefits.

No future deposits to Account Value shall be assumed unless required by the terms of the contract to prevent contract or guaranteed benefit lapse, in which case they must be modeled. When future deposits must be modeled, to the extent not inconsistent with contract language the allocation of the deposit to funds must be in proportion to the contract's current allocation to such funds.

5) Mortality. Mortality at 70% of the 1994 Variable Annuity MGDB Mortality Tables (1994 MGDB tables) through age 85 increasing by 1% each year to 100% of the 1994 MGDB tables at age 115 shall be assumed in the projection used to the determine the greatest present value amount required under section A3.3)B)2)b).

6) Projection Frequency. The projection used to determine the greatest present value amount required under section A3.3)B)2)b) shall be calculated using an annual or more frequent time step, such as quarterly. For time steps more frequent than annual, assets supporting Account Values at the start of a year may be retained in such funds until year-end (i.e., margin earned during the year will earn the fund rates instead of the Discount Rate until year end) or removed after each time step. However, the same approach shall be applied for all years. Similarly, projected benefits, lapses, elections and other contractholder activity can be assumed to occur annually or at the end of each time step, but the approach shall be consistent for all years.

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7) Contractholder Election Rates. Contractholder election rates for exercisable ITM guaranteed living benefits other than GMWBs shall be 5% per annum in every projection interval where the living benefit is less than 10% ITM, 15% per annum in every projection interval where the living benefit is 10% or more ITM and less than 20% ITM, and 25% per annum in every projection interval where the living benefit is more than 20% ITM. In addition, the election rate for an exercisable ITM guaranteed living benefit shall be 100% at the last model duration to elect such benefit. This 100% election rate shall be used when a Guaranteed Minimum Accumulation Benefit is at the earliest date that the benefit is exercisable and in-the-money. However, the contractholder election rate for any exercisable ITM guaranteed living benefit shall be zero if exercise would cause the extinction of a guaranteed living benefit having a larger Current Value. For this purpose, GMDBs are not benefits subject to election.

For guaranteed minimum withdrawal benefits, a partial withdrawal, if allowed by contract provisions, equal to the applicable percentage in Table III applied to the contract's maximum allowable partial withdrawal shall be assumed. However, if the contract's minimum allowable partial withdrawal exceeds the partial withdrawal from applying the rate in Table III to the contract's maximum allowable partial withdrawal, then the contract's minimum allowable partial withdrawal shall be assumed.

Table III - Guaranteed Withdrawal Assumptions			
	Attained Age less than 50	Attained Age 50 to 59	Attained Age 60 or Greater
Withdrawals do not reduce other elective Guarantees that are in the money	50%	75%	100%
Withdrawals reduce elective Guarantees that are in the money	25%	50%	75%

8) Indices. If an interest index is required to determine projected benefits or reinsurance obligations, the index must assume interest rates have not changed since the last reported rates before the valuation date. If an equity index is required the index shall be consistent with the last reported index before the valuation date, the initial drop in equity returns and the subsequent equity returns in the standard scenario projection. The sources of information and how they are used to determine the indexes shall be documented and, to the extent possible, consistent from year to year.

D) Assumptions for use in Section A3.3)B)2)c).

1) The Value of Aggregate Reinsurance. The value of Aggregate reinsurance shall be calculated separately from the Accumulated Net Revenue. The value of Aggregate reinsurance is the discounted value, using the statutory valuation rate described in the following paragraph, of the excess of (a) the projected benefit payments from the reinsurance; over (b) the projected gross reinsurance premiums, where (a) and (b) are determined under the assumptions described in section A3.3)C) for all applicable contracts in aggregate.

In order for the value of the Aggregate reinsurance to be consistent with the underlying Standard Scenario reserve, the discount rate shall be a weighted average of the valuation rates (*DR*) of the contracts that are supported by the Aggregate reinsurance treaty. The

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weights used to determine this discount rate shall be reasonably related to the risks that are being covered by the Aggregate reinsurance (e.g., account value or values of guaranteed benefits) and shall be applied consistently from year to year. If an appropriate method to determine this discount rate does not exist, the value of the Aggregate reinsurance shall be determined using the statutory valuation rate in effect on the valuation date for annuities valued on an issue year basis using Plan Type A and a Guarantee Duration greater than 10 years but not more than 20 years, determined assuming there are cash settlement options but no interest guarantees on future premiums.

2) The Value of Approved Hedges. The value of approved hedges shall be calculated separately from the Accumulated Net Revenue. The value of approved hedges is the difference between: a) the discounted value at the 1-year CMT[16] as of the valuation date of the pre-tax cash flows from the approved hedges; less b) their statement values on the valuation date.

To be an approved hedge for purposes of the Standard Scenario Reserve, a derivative or other investment has to be an actual asset held by the company on the valuation date, be used as a hedge supporting the contracts falling under the scope of the Guideline, and comply with any statutes, laws, or regulations (including applicable documentation requirements) of the domiciliary state or jurisdiction related to the use of derivative instruments.

The Domiciliary Commissioner may require the exclusion of any portion of the value of approved hedges upon a finding that the company's documentation, controls, measurement, execution of strategy or historical results are not adequate to support a future expectation of risk reduction commensurate with the value of approved hedges.

The cash flow projection for approved hedges that expire in less than one year from the valuation date should be based on holding the hedges to their expiration. For hedges with an expiration of more than 1 year, the value of hedges should be based on liquidation of the hedges one year from the valuation date. Where applicable, the liquidation value of hedges shall be consistent with the assumed returns in the Standard Scenario from the start of the projection to the date of liquidation, Black-Scholes pricing, a risk free rate equal to the 5-year CMT as of the valuation date and the annual volatility implicit as of the valuation date in the statement value of the hedges when the statement value of hedges are valued with Black-Scholes pricing and a risk-free rate equal to the 5-year CMT as of the valuation date.[17]

There is no credit in the Standard Scenario for dynamic hedging beyond the credit that results from hedges actually held on the valuation date.

3) Allocation of the Value of Hedges and the Value of Aggregate Reinsurance. The value of approved hedges and Aggregate reinsurance shall be allocated to the contracts which are supported by the applicable Aggregate reinsurance agreements and approved hedges. A

[16] For purposes of this Appendix, the term CMT refers to the nominal yields on actively traded non-inflation-indexed issues adjusted to constant maturities, as released daily by the Federal Reserve Board. As of this writing, the current and historical one-year rates may be found at http://www.federalreserve.gov/releases/h15/data/Business_day/H15_TCMNOM_Y1.txt and the current and historical five-year rates may be found at http://www.federalreserve.gov/releases/h15/data/Business_day/H15_TCMNOM_Y5.txt.

[17] Conceptually, the item being hedged, the contract guarantees, and the approved hedges are accounted for at the average present value of the worst 30% of all scenarios, the tail scenarios for a CTE (70) measure. However, the statement value of approved hedges is at market. Therefore, the standard scenario value of approved hedges is a proxy of the adjustment needed to move approved hedges from a market value to a tail value.

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contract's allocation shall be the lesser of the amount in A3.3)B)2)b) for the contract or the product of a) and b) where:

a) Is the sum of the value of the applicable approved hedges plus the value of the applicable Aggregate reinsurance for all contracts supported by the same hedges and/or the Aggregate reinsurance agreement; and

b) Is the ratio of the amount in A3.3)B)2)b) for the contract to the sum of the amount in A3.3)B)2)b) for all contracts supported by the same hedges and/or the Aggregate reinsurance agreement.

4) Retention of components. For the seriatim Standard Scenario Reserve on the statement date under each of Sections A3.1)B)1) and A3.1)B)2), the actuary should have available to the Commissioner the following values for each contract:

a) The Standard Scenario Reserve prior to adjustment under paragraph A3.3)D)3)

b) The Standard Scenario Reserve net of the adjustment in A3.3)D)3)

E) Determination of the Surrender Charge Amortization Period to be used in Section A3.3)C)1)a) and b).

The purpose of the Surrender Charge Amortization Period is to help determine how much of the surrender charge is amortized in the Basic Adjusted Reserve portion of the Standard Scenario Amount and how much needs to be amortized in the Accumulated Net Revenue portion. Once determined, the Surrender Charge Amortization Period determines the duration over which the lower level of margins, as described in A3.3)C)1)a), is used. After that duration, the higher level of margins, as described in A3.3)C)1)b), is used.

A separate Surrender Charge Amortization Period is determined for each contract and is based on amounts determined in the calculation of the Basic Adjusted Reserve for that contract. A key component of the calculation is the amount of the surrender charge that is not amortized in the Basic Adjusted Reserve calculation for that contract. This is represented by the difference between the account value and the cash surrender value projected within the Basic Adjusted Reserve calculation for the contract.

The Surrender Charge Amortization Period for a given contract is determined by following the steps:

1) Measure the duration of the greatest present value used in the Basic Adjusted Reserve. The Basic Adjusted Reserve is determined for a contract by taking the greatest present value of a stream of projected benefits. The benefit stream that determines the greatest present value typically includes an "ultimate" event (e.g., 100% surrender, 100% annuitization, or maturity). The "BAR Duration" is the length of time between the valuation date and the projected "ultimate" event.

2) Determine the amount of the surrender charge not amortized in the Basic Adjusted Reserve. The surrender charge not amortized in the Basic Adjusted Reserve is the difference between the projected account value and the projected cash surrender value at the BAR Duration (i.e., at the time of that projected "ultimate" event). This value for a given contract shall not be less than zero.

3) Determine the Surrender Charge Amortization Period before rounding. This equals a) time b) plus c), where:

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a) Equals the ratio of the amount determined in step 2 to the Account Value on the valuation date;
b) Equals 100; and
c) Equals the BAR Duration determined in step 1.

4) Determine the Surrender Charge Amortization Period for the contract. This is the amount determined in step 3, rounded to the nearest number that represents a projection duration, taking into account the projection frequency described in A3.3)C)6). For example, step 3 produces a value of 2.15 and the projection frequency is quarterly, the Surrender Charge Amortization Period for the contract is 2.25.

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APPENDIX 4 - Alternative Methodology

A4.1) General Methodology

A) General Methodology Description. For variable deferred annuity contracts that either contain no guaranteed benefits or only GMDBs[18] (i.e., no VAGLBs), the Conditional Tail Expectation Amount may be determined by using the method outlined below rather than by using the approach described in Section IV)D) (i.e., based on projections), provided the approach described in Section IV)D) has not been used in prior valuations or else approval has been obtained from the Domiciliary Commissioner.

The Conditional Tail Expectation Amount determined using the Alternative Methodology for a group of contracts with GMDBs shall be determined as the sum of amounts obtained by applying factors to each contract inforce as of a valuation date and adding this to the contract's Cash Surrender Value.[19] The resulting Conditional Tail Expectation Amount shall not be less than the Cash Surrender Value in aggregate for the group of contracts to which the Alternative Methodology is applied.

The Conditional Tail Expectation Amount determined using the Alternative Methodology for a group of contracts that contain no guaranteed benefits[20] shall be determined using an application of Actuarial Guideline XXXIII, as described below.

For purposes of performing the Alternative Methodology, materially similar contracts within the group may be combined together into subgroups to facilitate application of the factors. Specifically, all contracts comprising a "subgroup" must display substantially similar characteristics for those attributes expected to affect reserves (e.g., definition of guaranteed benefits, attained age, contract duration, years-to-maturity, market-to-guaranteed value, asset mix, etc.). Grouping shall be the responsibility of the actuary but may not be done in a manner that intentionally understates the resulting reserve.

B) Definitions of Terms Used in this Appendix

1) Annualized Account Charge Differential. This term is the charge as percentage account value (revenue for the company) minus the expense as percentage of account value.

2) Asset Exposure. Asset Exposure refers to the greatest possible loss to the insurance company from the value of assets underlying general or separate account contracts falling to zero.

3) Benchmark. Benchmarks have similar risk characteristics to the entity (e.g., asset class, index or fund) to be modeled.

4) Deterministic Calculations. In a Deterministic Calculation, a given event (e.g., asset returns going up by 7% then down by 5%) is assumed to occur with certainty. In a stochastic calculation, events are assigned probabilities.

5) Foreign Securities. Securities issued by entities outside the United States and Canada.

[18] This includes "earnings enhanced death benefits," as discussed in Section III)A)1).

[19] The amount that is added to a contract's Cash Surrender Value may be negative, zero or positive, thus resulting in a reserve for a given contract that could be less than, equal to, or greater than, the Cash Surrender Value.

[20] The term "contracts that contain no guaranteed benefits" means that there are no guaranteed benefits at any time during the life of the contract (past, present or future).

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6) Grouped Fund Holdings. Grouped Fund Holdings relate to guarantees that apply across multiple deposits or for an entire contract instead of on a deposit-by-deposit basis.

7) Guaranteed Value. The Guaranteed Value is the benefit base or a substitute for the account value (if greater than the account value) in the calculation of living benefits or death benefits. The methodology for setting the Guaranteed Value is defined in the variable annuity contract.

8) High-Yield Bonds. High-Yield Bonds are below investment grade, with NAIC designations (if assigned) of 3, 4, 5, or 6. Compared to investment grade bonds, these bonds have higher risk of loss due to credit events. Funds containing securities predominately containing securities that are not NAIC designated as 1 or 2 (or similar agency ratings) are considered to be High-Yield.

9) Investment Grade Fixed Income Securities. Securities with NAIC designations of 1 or 2 are Investment Grade. Funds containing securities predominately with NAIC designations of 1 or 2 or with similar agency ratings are considered to be Investment Grade.

10) Liquid Securities. These securities can be sold and converted into cash at a price close to its true value in a short period of time.

11) Margin Offset. Margin Offset is the portion of charges plus any Revenue Sharing allowed under section A1.1)E) available to fund claims and amortization of the unamortized surrender charges allowance.

12) Multi-Point Linear Interpolation. This methodology is documented in mathematical literature and calculates factors based on multiple attributes categorized with discrete values where the attributes' actual values may be between the discrete values.

13) Model Office. A Model Office converts many contracts with similar features into one contract with specific features for modeling purposes.

14) Pre-Packaged Scenarios. The Pre-Packaged Scenarios are the year-by-year asset returns that may be used (but are not mandated) in projections related to the alternative methodology. These scenarios are available on an American Academy of Actuaries website.

15) Quota-Share Reinsurance. In this type of reinsurance treaty, the same proportion is ceded on all cessions. The reinsurer assumes a set percentage of risk for the same percentage of the premium, minus an allowance for the ceding company's expenses.

16) Resets. A Reset benefit results in a future minimum guaranteed benefit being set equal to the contract's account value at previous set date(s) after contract inception.

17) Risk Mitigation Strategy. A Risk Mitigation Strategy is a device to reduce the probability and/or impact of a risk below an acceptable threshold.

18) Risk Profile. Risk Profile in the Guideline relates to the prescribed asset class categorized by the volatility of returns associated with that class.

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19) Risk Transfer Arrangements. A Risk Transfer Arrangement shifts risk exposures (e.g., the responsibility to pay at least a portion of future contingent claims) away from the original insurer.

20) Roll-Up. A Roll-Up benefit results in the guaranteed value associated with a minimum contractual guarantee increasing at a contractually defined interest rate.

21) Volatility. Volatility refers to the annualized standard deviation of asset returns.

C) Contract-by-Contract Application for Contracts that Contain No Guaranteed Living or Death Benefits. The Alternative Methodology reserve for each contract that contains no guaranteed living or death benefits shall be determined by applying Actuarial Guideline XXXIV. The application shall assume a return on separate account assets equal to the year of issue valuation interest rate less appropriate asset based charges. It shall also assume a return for any fixed separate account and general account options equal to the rates guaranteed under the contract.

The reserve for such contracts shall be no less than the Cash Surrender Value on the valuation date, as defined in Section III)B).

D) Contract-by-Contract Application for Contracts that Contain GMDB only. For each contract, factors are used to determine a dollar amount, equal to $R\times(CA+FE)+GC$ (as described below), that is to be added to that contract's Cash Surrender Value as of the valuation date. The dollar amount to be added for any given contract may be negative, zero, or positive. The factors that are applied to each contract shall reflect the following attributes as of the valuation date:

1) The contractual features of the variable annuity product,

2) The actual issue age, period since issue, attained age, years-to-maturity, and gender applicable to the contract,

3) The account value and composition by type of underlying variable or fixed fund,

4) Any surrender charges,

5) The GMDB and the type of adjustment made to the GMDB for partial withdrawals (e.g., proportional or dollar-for-dollar adjustment), and

6) Expenses to be incurred and revenues to be received by the company as estimated on a Prudent Estimate basis as described in Section III)B)8) and complying with the requirements for Revenue Sharing as described in section A1.1)E).

E) Factor Components. Factors shall be applied to determine each of the following components.[21]

CA = Provision for amortization of the unamortized surrender charges calculated by the insurer based on each contract's surrender charge schedule, using prescribed assumptions, except that lapse rates shall be based on the insurer's Prudent Estimate, but with no provision for Federal Income Taxes or mortality;

FE = Provision for fixed dollar expenses less fixed dollar revenue calculated using prescribed assumptions, the contract's actual expense charges, the insurer's anticipated

[21] Material to assist in the calculation of the components is available on the American Academy of Actuaries' website, at http://www.actuary.org/life/phase2.asp.

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actual expenses and lapse rates, both estimated on a Prudent Estimate basis, and with no provision for Federal Income Taxes or mortality;

GC = Provision for the costs of providing the GMDB less net available spread-based charges determined by the formula $F \times GV - G \times AV \times R$, where GV and AV are as defined in section A4.3)A);

R = A scaling factor that is a linear function of the ratio of the margin offset to Total Account Charges (*W*) and takes the form $R(\beta_0, \beta_1) = \beta_0 + \beta_1 \times W$. The intercept and slope factors for this linear function vary according to:

a) Product type,
b) Pro-rata or dollar-for-dollar reductions in guaranteed value following partial withdrawals,
c) Fund class,
d) Attained age,
e) Contract duration,
f) Asset-based charges, and
g) 90% of the ratio of account value to guaranteed value, determined in the aggregate for all contracts sharing the same product characteristics.

Tables of factors for *F*, *G*, β_0, and β_1 values, reflecting a 65% confidence level and ignoring Federal Income Tax, are available from the National Association of Insurance Commissioners. In calculating $R(\beta_0, \beta_1)$ directly from the linear function provided above, the margin ratio *W* must be constrained to values greater than or equal to 0.2 and less than or equal to 0.6.

Interpolated values of F, *G* and *R* (calculated using the linear function described above) for all contracts having the same product characteristics and asset class shall be derived from the pre-calculated values using multi-point linear interpolation over the following four contract-level attributes:

1) Attained age

2) Contract duration

3) Ratio of account value to GMDB, and

4) The level of all asset based charges, including any fund management fees or allowances based on the underlying variable annuity funds received by the insurer.

The gross asset-based charges for a product shall equal the sum of all contractual asset-based charges plus fund management fees or allowances based on the underlying variable annuity funds received by the insurer determined by complying with the requirements for Prudent Estimate described in Section III)B)8) and Revenue Sharing described in section A1.1)E). Net asset-based charges equal gross asset-based charges less any company expenses assumed to be incurred expressed as a percentage of account value. All expenses that would be assumed if the Conditional Tail Expectation Amount were being computed as described in section A1.1)A) should be reflected either in the calculation of the net asset based charges or in the expenses reflected in the calculation of the amount *FE*.

No adjustment is made for Federal Income Taxes in any of the components listed above.

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For purposes of determining the Conditional Tail Expectation Amount using the Alternative Methodology, any interpretation and application of the requirements of the Guideline shall follow the principles discussed in the Section I) Background.

A4.2) Calculation of *CA* and *FE*

A) General Description. Components *CA* and *FE* shall be calculated for each contract, thus reflecting the actual account value and GMDB, as of the valuation date, which is unique to each contract.

Components *CA* and *FE* are defined by deterministic "single-scenario" calculations that account for asset growth, interest and inflation at prescribed rates. Mortality is ignored for these two components. Lapse rates shall be determined on a Prudent Estimate basis as described in Section III)B)8). Lapse rates shall be adjusted by the formula shown below (the Dynamic Lapse Multiplier, λ), which bases the relationship of the GMDB (denoted as GV in the formula) to the account value (denoted as AV in the formula) on the valuation date. Thus, projected lapse rates are smaller when the GMDB is greater than the account value and larger when the GMDB is less than the account value.

$$\lambda = MIN\left[U, MAX\left[L, 1 - M \times \left(\frac{GV}{AV} - D\right)\right]\right]$$

where U=1, L=0.5, M=1.25, and D=1.1.

Present values shall be computed over the period from the valuation date to contract maturity at a discount rate of 5.75%.

Projected fund performance underlying the account values is as shown in the table below. Unlike the *GC* component, which requires the entire account value to be mapped, using the Fund Categorization Rules set forth in section A4.4, to a single "equivalent" asset class (as described in A4.4)C)), the *CA* and *FE* calculation separately projects each variable subaccount (as mapped to the 8 prescribed categories shown in section A4.4)) using the net asset returns shown in the following table. If surrender charges are based wholly on deposits or premiums as opposed to account value, use of this table may not be necessary.

Asset Class / Fund	Net Annualized Return
Fixed Account	Guaranteed Rate
Money Market	0%
Fixed Income (Bond)	0%
Balanced	–1%
Diversified Equity	–2%
Diversified International Equity	–3%
Intermediate Risk Equity	–5%
Aggressive or Exotic Equity	–8%

B) Component *CA*. Component *CA* is computed as the present value of the projected change in surrender charges plus the present value of an implied borrowing cost of 25 basis points at the beginning of each future period applied to the surrender charge at such time.

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This component can be interpreted as the "amount needed to amortize the unamortized surrender charge allowance for the *persisting* policies plus the implied borrowing cost." By definition, the amortization for non-persisting lives in each time period is exactly offset by the collected surrender charge revenue (ignoring timing differences and any waiver upon death). The unamortized balance must be projected to the end of the surrender charge period using the net asset returns and Dynamic Lapse Multiplier, λ, both as described above and the year-by-year amortization discounted also as described above. For simplicity, mortality is ignored in the calculations. Surrender charges and free partial withdrawal provisions are as specified in the contract. Lapse and withdrawal rates are determined on a Prudent Estimate basis, and may vary according to the attributes of the business being valued, including, but not limited to, attained age, contract duration, etc.

C) Component *FE*. Component *FE* establishes a provision for fixed dollar expenses (e.g., allocated costs, including overhead expressed as "per contract" *and* those expenses defined on a "per contract" basis) less any fixed dollar revenue (e.g., annual administrative charges or contract fees) through the earlier of contract maturity or 30 years. *FE* is computed as the present value of the company's assumed fixed expenses projected at an assumed annual rate of inflation starting in the second projection year. This rate grades uniformly from the current inflation rate ("CIR") into an ultimate inflation rate of 3% per annum in the 8th year after the valuation date. The CIR is the greater of 3% and the inflation rate assumed for expenses in the company's most recent asset adequacy analysis for similar business.

A4.3) Calculation of the *GC* Component

A) *GC* Factors. *GC* is calculated as $F \times GV - G \times AV \times R$, where *GV* is the amount of GMDB and *AV* is the contract account value, both as of the valuation date. *F*, *G* and the slope and intercept for the linear function used to determine *R* (identified symbolically as β_0 and β_1) are pre-calculated factors available from the National Association of Insurance Commissioners and known herein as the "Pre-Calculated Factors." These factors shall be interpolated as described in subsection F), below, and modified as necessary as described in sections A4.3)G) and A4.3)H).

B) Five Steps. There are five major steps in determining the *GC* component for a given contract:

1) Classifying the asset exposure (as specified in subparagraph C), below);

2) Determining the risk attributes (as specified in subparagraphs D) and E), below);

3) Retrieving the appropriate nodal factors from the factor grid (as described in subparagraph F) below;

4) Interpolating the nodal factors, where applicable (optional) also as described in subparagraph F), below; and

5) Applying the factors to the contract values.

C) Classifying Asset Exposure. For purposes of calculating *GC* (unlike what is done for components *CA* and *FE*), the entire account value for each contract must be assigned to one of the eight prescribed fund classes shown in section A4.4), using the Fund Categorization rules in section A4.4).

D) Product Designs. Factors *F*, *G* and $R(\beta_1, \beta_2)$ are available within the Pre-Calculated Factors for the following GMDB product designs:

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1) Return of Premium ("ROP"),

2) Premiums less withdrawals accumulated at 3% per annum, capped at 2.5 times premiums less withdrawals, with no further increase beyond age 80 ("ROLL3"),

3) Premiums less withdrawals accumulated at 5% per annum, capped at 2.5 times premiums less withdrawals, with no further increase beyond age 80 ("ROLL5"),

4) An annual ratchet design (maximum anniversary value), for which the guaranteed benefit never decreases and is increased to equal the previous contract anniversary account value, if larger, with no further increases beyond age 80 ("MAV"),

5) A design having a guaranteed benefit equal to the larger of the benefits in designs 3 and 4, above ("HIGH"),

6) An enhanced death benefit ("EDB") equal to 40% of the net earnings on the account (i.e., 40% of account value less total premiums paid plus withdrawals made) with this latter benefit capped at 40% of premiums less withdrawals ("EDB").

E) Other Attributes. Factors F, G and $R(\beta_1, \beta_2)$ are available within the Pre-Calculated Factors for the following set of attributes:

1) Two Partial Withdrawal Rules – one for contracts having a pro-rata reduction in the GMDB and another for contracts having a dollar-for-dollar reduction,

2) The eight asset classes described in section A4.4.B),

3) Eight attained ages, with a 5-year age setback for females,

4) Five contract durations,

5) Seven values of GV/AV, and

6) Three levels of asset-based income.

F) Interpolation of F, G and $R(\beta_1, \beta_2)$.

1) Values of F, G and $R(\beta_1, \beta_2)$ apply to a contract having the product characteristics listed in section A4.5)A) and shall be determined by selecting values for the appropriate partial withdrawal rule and asset class and then using multi-point linear interpolation among published values for the last four attributes shown in section A4.3)E).

2) Interpolation over all four dimensions is not required, but if not performed over one or more dimensions, the factor used must result in a conservative (higher) value of GC. However, simple linear interpolation using the $AV \div GV$ ratio is mandatory. In this case, the company must choose nodes for the other three dimensions according to the following rules: next highest attained age, nearest duration, and nearest Annualized Account Charge Differential, as listed in A4.5)C) (i.e., capped at +100 and floored at –100 bps).

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3) For $R(\beta_1, \beta_2)$, the interpolation should be performed on the Scaling Factors *R* calculated using β_1, β_2, using the ratio of Margin Offset to Total Asset Charges (*W*), not on the factors β_1 and β_2 themselves.

4) An Excel® workbook, Excel® add-in and companion dynamic link library (.dll) program is available from the National Association of Insurance Commissioners that can be used to determine the correct values and perform the multi-point linear interpolation.

5) Alternatively, published documentation can be referenced on performing multi-point linear interpolation and the required sixteen values determined using a key that is documented in the table "*Components of Key Used for GC Factor Look-Up*" located in section A4.5)C).

G) Adjustments to *GC* for Product Variations & Risk Mitigation/Transfer. In some cases, it may be necessary to make adjustments to the published factors due to:

1) A variation in product form wherein the definition of the guaranteed benefit is materially different from those for which factors are available (see section A4.3)H)); and/or

2) A risk mitigation or other management strategy, other than a hedging strategy, that cannot be accommodated through a straightforward and direct adjustment to the published values.

Adjustments may not be made to *GC* for hedging strategies.

Any adjustments to the published factors must be fully documented and supported through stochastic analysis. Such analysis may require stochastic simulations, but would not ordinarily be based on full inforce projections. Instead, a representative "model office" should be sufficient. Use of these adjusted factors must be supported by a periodic review of the appropriateness of the assumptions and methods used to perform the adjustments, with changes made to the adjustments when deemed necessary by such review.

Note that minor variations in product design do not necessarily require additional effort. In some cases, it may be reasonable to use the factors/formulas for a different product form (e.g., for a roll-up GMDB, nearer or beyond the maximum reset age or amount, the ROP GMDB factors/formulas shall be used, possibly adjusting the guaranteed value to reflect further resets, if any). In other cases, the reserves may be based on two different guarantee definitions and the results interpolated to obtain an appropriate value for the given contract/cell. Likewise, it may be possible to adjust the Alternative Methodology results for certain risk transfer arrangements without significant additional work (e.g., quota-share reinsurance without caps, floors or sliding scales would normally be reflected by a simple pro-rata adjustment to the "gross" *GC* results).

However, if the contract design is sufficiently different from those provided and/or the risk mitigation strategy is non-linear in its impact on the Conditional Tail Expectation Amount, and there is no practical or obvious way to obtain a good result from the prescribed factors/formulas, any adjustments or approximations must be supported using stochastic modeling. Notably this modeling need not be performed on the whole portfolio, but can be undertaken on an appropriate set of representative policies.

H) Adjusting *F* and *G* for Product Design Variations. This subsection describes the typical process for adjusting *F* and *G* factors due to a variation in product design. Note that *R* (as determined by the slope and intercept terms in the factor table) would not be adjusted.

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1) Select a contract design among those described in section A4.3)D) that is similar to the product being valued. Execute cash flow projections using the documented assumptions (see table of *Liability Modeling Assumptions & Product Characteristics* in section A4.5)A) and table of *Asset Based Fund Charges* in section A4.5)B)) and the pre-packaged scenarios for a set of representative cells (combinations of attained age, contract duration, asset class, AV/GMDB ratio and asset-based charges). These cells should correspond to nodes in the table of pre-calculated factors. Rank (order) the sample distribution of results for the present value of net cost.[22] Determine those scenarios that comprise CTE (65).

2) Using the results from step 1, average the present value of cost for the CTE (65) scenarios and divide by the current guaranteed value. For the Jth cell, denote this value by F_J. Similarly, average the present value of margin offset revenue for the same subset of scenarios and divide by account value. For the Jth cell, denote this value by G_J.

3) Extract the corresponding pre-calculated factors. For each cell, calibrate to the published tables by defining a "model adjustment factor" (denoted by asterisk) separately for the "cost" and "margin offset" components:

$$F_J^* = \frac{f(\tilde{\theta})}{F_J} \text{ and } G_J^* = \frac{\hat{g}(\tilde{\theta})}{G_J}$$

4) Execute "product specific" cash flow projections using the documented assumptions and pre-packaged scenarios for the same set of representative cells. Here, the company should model the actual product design. Rank (order) the sample distribution of results for the present value of net cost. Determine those scenarios that comprise CTE (65).

5) Using the results from step 4, average the present value of cost for the CTE (65) scenarios and divide by the current guaranteed value. For the Jth cell, denote this value by $\overline{F}_J$. Similarly, average the present value of margin offset revenue for the same subset of scenarios and divide by account value. For the Jth cell, denote this value by $\overline{G}_J$.

6) To calculate the Conditional Tail Expectation Amount for the specific product in question, the company should implement the Alternative Methodology as documented, but use $\overline{F}_J \times F_J^*$ in place of F and $\overline{G}_J \times G_J^*$ instead of G. The same R factors as appropriate for the product evaluated in step 1 shall be used for this step (i.e., the product used to calibrate the cash flow model).

I) Adjusting G_J for Mortality Experience. The factors that have been developed for use in determining FC assume male mortality at 100% of the 1994 Variable Annuity MGDB ALB Mortality Table. Companies electing to use the Alternative Methodology that have not conducted an analysis of their mortality experience shall use these factors. Other companies should use the procedure described below to adjust for the actuary's Prudent Estimate of mortality. The development of Prudent Estimate mortality shall follow the requirements and guidance of Appendix 10. Once a company uses the modified method for a block of business, the option to use the unadjusted factors is no longer available for that part of its business. In applying the factors to actual inforce business, a 5-year age setback should be used for female annuitants.

[22] Present value of net cost = PV [guaranteed benefit claims in excess of account value] – PV [margin offset]. The discounting includes cash flows in all future years (i.e., to the earlier of contract maturity and the end of the horizon).

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1) Develop a set of mortality assumptions based on Prudent Estimate. In setting these assumptions, the actuary shall be guided by the definition of Prudent Estimate and the principles discussed in Appendices 9 and 10 of the Guideline.

2) Calculate two sets of net single premiums (NSP) at each attained age: one valued using 100% of the 1994 Variable Annuity MGDB ALB Mortality Table (with the aforementioned 5-year age setback for females) and the other using Prudent Estimate mortality. These calculations shall assume an interest rate of 3.75% and a lapse rate of 7% per year.

3) The *GC* factor is multiplied by the ratio, for the specific attained age being valued, of the NSP calculated using the Prudent Estimate mortality to the NSP calculated using the 1994 Variable Annuity MGDB ALB Mortality Table (with the aforementioned 5-year age setback for females).

A4.4) Fund Categorization

A) Criteria. The following criteria should be used to select the appropriate factors, parameters and formulas for the exposure represented by a specified guaranteed benefit. When available, the volatility of the long-term annualized total return for the fund(s) – or an appropriate benchmark – should conform to the limits presented. For this purpose, "long-term" is defined as twice the average projection period that would be applied to test the product in a stochastic model (generally, at least 30 years).

Where data for the fund or benchmark are too sparse or unreliable, the fund exposure should be moved to the next higher volatility class than otherwise indicated. In reviewing the asset classifications, care should be taken to reflect any additional volatility of returns added by the presence of currency risk, liquidity (bid-ask) effects, short selling and speculative positions.

B) Asset Classes. Variable subaccounts must be categorized into one of the following eight (8) asset classes. For purposes of calculating *CA* or *FE*, each contract will have one or more of the following asset classes represented, whereas for component *GC*, all subaccounts will be mapped into a single asset class.

1) Fixed Account. This class is credited interest at guaranteed rates for a specified term or according to a 'portfolio rate' or 'benchmark' index. This class offers a minimum positive guaranteed rate that is periodically adjusted according to company policy and market conditions.

2) Money Market/Short-Term. This class is invested in money market instruments with an average remaining term-to-maturity of less than 365 days.

3) Fixed Income. This class is invested primarily in investment grade fixed income securities. Up to 25% of the funds within this class may be invested in diversified equities or high-yield bonds. The expected volatility of the returns for this class will be lower than the Balanced fund class.

4) Balanced. This class is a combination of fixed income securities with a larger equity component. The fixed income component should exceed 25% of the portfolio. Additionally, any aggressive or 'specialized' equity component should not exceed one-third (33.3%) of the total equities held. Should the fund violate either of these constraints, it should be categorized as an equity fund. This class usually has a long-term volatility in the range of 8% – 13%.

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5) Diversified Equity. This class is invested in a broad-based mix of U.S. and foreign equities. The foreign equity component (maximum 25% of total holdings) must be comprised of liquid securities in well-developed markets. Funds in this class would exhibit long-term volatility comparable to that of the S&P500. These funds should usually have a long-term volatility in the range of 13% – 18%.

6) Diversified International Equity. This class is similar to the Diversified Equity class, except that the majority of fund holdings are in foreign securities. This class should usually have a long-term volatility in the range of 14% – 19%.

7) Intermediate Risk Equity. This class has a mix of characteristics from both the Diversified and Aggressive Equity Classes. This class has a long-term volatility in the range of 19% – 25%.

8) Aggressive or Exotic Equity. This class comprises more volatile funds where risk can arise from: underdeveloped markets, uncertain markets, high volatility of returns, narrow focus (e.g., specific market sector), etc. This class (or market benchmark) either does not have sufficient history to allow for the calculation of a long-term expected volatility, or the volatility is very high. This class would be used whenever the long-term expected annualized volatility is indeterminable or exceeds 25%.

C) Selecting Appropriate Investment Classes. The selection of an appropriate investment type should be done at the level for which the guarantee applies. For guarantees applying on a deposit-by-deposit basis, the fund selection is straightforward. However, where the guarantee applies across deposits or for an entire contract, the approach can be more complicated. In such instances, the approach is to identify for each contract where the "grouped holdings" fit within the categories listed and to classify the associated assets on this basis.

A seriatim process is used to identify the "grouped" fund holdings, to assess the risk profile of the current fund holdings (possibly calculating the expected long-term volatility of the funds held with reference to the indicated market proxies), and to classify the entire 'asset exposure' into one of the specified choices. Here, 'asset exposure' refers to the underlying assets (separate and/or general account investment options) on which the guarantee will be determined. For example, if the guarantee applies separately for each deposit year within the contract, then the classification process would be applied separately for the exposure of each deposit year.

In summary, mapping the benefit exposure (i.e., the asset exposure that applies to the calculation of the guaranteed minimum death benefits) to one of the prescribed asset classes is a multi-step process:

1) Map each separate and/or general account investment option to one of the prescribed asset classes. For some funds, this mapping will be obvious, but for others it will involve a review of the fund's investment policy, performance benchmarks, composition and expected long-term volatility.

2) Combine the mapped exposure to determine the expected long-term "volatility of current fund holdings." This will require a calculation based on the expected long-term volatility for each fund and the correlations between the prescribed asset classes as given in the table "*Correlation Matrix for Prescribed Asset Classes*," in section A4.4)D).

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3) Evaluate the asset composition and expected volatility (as calculated in step 2) of current holdings to determine the single asset class that best represents the exposure, with due consideration to the constraints and guidelines presented earlier in this section.

In step 1, the company should use the fund's actual experience (i.e., historical performance, inclusive of reinvestment) only as a guide in determining the expected long-term volatility. Due to limited data and changes in investment objectives, style and/or management (e.g., fund mergers, revised investment policy, different fund managers, etc.); the company may need to give more weight to the expected long-term volatility of the fund's benchmarks. In general, the company should exercise caution and not be overly optimistic in assuming that future returns will consistently be less volatile than the underlying markets.

In step 2, the company should calculate the "volatility of current fund holdings" (for the exposure being categorized) by the following formula

$$\sigma = \sqrt{\sum_{i=1}^{n}\sum_{j=1}^{n} w_i w_j \rho_{ij} \sigma_i \sigma_j}$$

using the volatilities and correlations in the following table, where $w_i = \frac{AV_i}{\sum_k AV_k}$ is the relative value of fund i expressed as a proportion of total contract value, ρ_{ij} is the correlation between asset classes i and j and σ_i is the volatility of asset class i. An example is provided after the table.

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D) Correlation Matrix for Prescribed Asset Classes.

ANNUAL VOLATILITY		FIXED ACCOUNT	MONEY MARKET	FIXED INCOME	BALANCED	DIVERSE EQUITY	INTL EQUITY	INTERM EQUITY	AGGR EQUITY
1.0%	FIXED ACCOUNT	**1**	0.50	0.15	0	0	0	0	0
1.5%	MONEY MARKET	0.50	**1**	0.20	0	0	0	0	0
5.0%	FIXED INCOME	0.15	0.20	**1**	0.30	0.10	0.10	0.10	0.05
10.0%	BALANCED	0	0	0.30	**1**	0.95	0.60	0.75	0.60
15.5%	DIVERSE EQUITY	0	0	0.10	0.95	**1**	0.60	0.8	0.70
17.5%	INTL EQUITY	0	0	0.10	0.60	0.60	**1**	0.50	0.60
21.5%	INTERM EQUITY	0	0	0.10	0.75	0.80	0.50	**1**	0.70
26.0%	AGGR EQUITY	0	0	0.05	0.60	0.70	0.60	0.70	**1**

E) Fund Categorization Example. As an example, suppose three funds (Fixed Income, diversified U.S. Equity and Aggressive Equity) are offered to clients of a product with a contract level guarantee (i.e., across all funds held within the contract). The current fund holdings (in dollars) for five sample contracts are shown in the following table.

	1	**2**	**3**	**4**	**5**
MV Fund X (Fixed Income):	5,000	4,000	8,000	-	5,000
MV Fund Y (Diversified Equity):	9,000	7,000	2,000	6,000	-
MV Fund Z (Aggressive Equity):	1,000	4,000	-	4,000	5,000
Total Market Value:	15,000	15,000	10,000	10,000	10,000
Total Equity Market Value:	10,000	11,000	2,000	10,000	5,000
Fixed Income % (*A*):	50%	27%	80%	0%	50%
Fixed Income Test (*A*>75%):	No	No	Yes	No	No
Aggressive % of Equity (B):	10%	36%	n/a	40%	100%
Balanced Test (*A*>25% & *B*<33.3%):	Yes	No	n/a	No	No
Volatility of Current Fund Holdings:	10.9%	13.2%	5.3%	19.2%	13.4%
Fund Classification:	**Balanced**	**Diversified*[23]**	**Fixed Income**	**Intermediate**	**Diversified**

[23] Although the volatility suggests "Balanced Fund," the Balanced Fund criteria were not met. Therefore, this 'exposure' is moved "up" to Diversified Equity. For those funds classified as Diversified Equity, additional analysis would be required to assess whether they should be instead designated as "Diversified International Equity."

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As an example, the "Volatility of Current Fund Holdings" for contract #1 is calculated as $\sqrt{A+B}$ where:

$$A = \left(\frac{5}{15}\times 0.05\right)^2 + \left(\frac{9}{15}\times 0.155\right)^2 + \left(\frac{1}{15}\times 0.26\right)^2$$

$$B = 2\cdot\left(\frac{5}{15}\cdot\frac{9}{15}\right)(0.1\times 0.05\times 0.155) + 2\cdot\left(\frac{5}{15}\cdot\frac{1}{15}\right)(0.05\times 0.05\times 0.26) + 2\cdot\left(\frac{9}{15}\cdot\frac{1}{15}\right)(0.7\times 0.155\times 0.26)$$

So the volatility for contract #1 = $\sqrt{0.0092+0.0026}$ = 0.109 or 10.9%.

A4.5) Tables

A) Liability Modeling Assumptions & Product Characteristics used for *GC* Factors

Asset Based Charges (MER)	Vary by fund class. See section A4.5)B).
Base Margin Offset	100 basis points per annum.
GMDB Description	1. ROP = return of premium ROP. 2. ROLL3 = 3% roll-up, capped at 2.5 × premium, frozen at age 80. 3. ROLL5 = 5% roll-up, capped at 2.5 × premium, frozen at age 80. 4. MAV = annual ratchet (maximum anniversary value), frozen at age 80. 5. HIGH = Higher of 5% roll-up and annual ratchet. 6. EDB = 40% Enhanced Death Benefit (capped at 40% of deposit). Note that the Pre-Calculated Factors were originally calculated with a combined ROP benefit, but they have been adjusted to remove the effect of the ROP. Thus, the factors for this benefit 5 are solely for the Enhanced Death Benefit.
Adjustment to GMDB Upon Partial Withdrawal	Separate factors for "Pro-Rata by Market Value" and "Dollar-for-Dollar."
Surrender Charges	Ignored (i.e., zero). Included in the *CA* component.
Single Premium / Deposit	100,000. No future deposits; no intra-contract fund rebalancing.
Base Contract Lapse Rate (Total Surrenders)	• Pro-rata by MV: 10% p.a. at all contact durations (before dynamics) • Dollar-for-dollar: 2% p.a. at all contract durations (no dynamics)
Partial Withdrawals	• Pro-rata by MV: None (i.e., zero) • Dollar-for-dollar: Flat 8% p.a. at all contract durations (as a % of AV). No dynamics or anti-selective behavior.
Mortality	100% of the 1994 Variable Annuity MGDB Mortality Table (MGDB 94 ALB). For reference, 1000 × q_x rates at ages 65 and 70 for 100% of MGDB 94 ALB Male are 18.191 and 29.363 respectively. Note that section A4.3)I) allows modification to this assumption.
Gender /Age Distribution	100% male. Methodology accommodates different attained ages. A 5-year age setback will be used for female annuitants.
Max. Annuitization Age	All policies terminate at age 95.
Fixed Expenses	Ignored (i.e., zero). Included in the *FE* component.
Annual Fee and Waiver	Ignored (i.e., zero). Included in the *FE* component.

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Discount Rate	5.75% pre-tax.
Dynamic Lapse Multiplier (Applies only to policies where GMDB is adjusted "pro-rata by MV" upon withdrawal)	$\lambda = MIN\left[U, MAX\left[L, 1 - M \times \left(\frac{GV}{AV} - D\right)\right]\right]$ U=1, L=0.5, M=1.25, D=1.1 ▪ Applied to the 'Base Contract Lapse Rate' ▪ Does not apply to partial withdrawals.

B) Asset-Based Fund Charges (bps per annum).

Asset Class / Fund	**Account Value Charge**
Fixed Account	0
Money Market	110
Fixed Income (Bond)	200
Balanced	250
Diversified Equity	250
Diversified International Equity	250
Intermediate Risk Equity	265
Aggressive or Exotic Equity	275

C) Components of Key Used for *GC* Factor Look-Up.

(First Digit Always "1")

Contract Attribute	Key: Possible Values & Description	
Product Definition, P	0 : 0	Return-of-premium.
	1 : 1	Roll-up (3% per annum).
	2 : 2	Roll-up (5% per annum).
	3 : 3	Maximum Anniversary Value (MAV).
	4 : 4	High of MAV and 5% Roll-up.
	5 : 5	Enhanced Death Benefit (excludes the ROP GMDB, which would have to be added separately if the contract in question has an ROP benefit.)
GV Adjustment Upon Partial Withdrawal, A	0 : 0	Pro-rata by market value.
	1 : 1	Dollar-for-dollar.
Fund Class, F	0 : 0	Fixed Account.
	1 : 1	Money Market.
	2 : 2	Fixed Income (Bond).
	3 : 3	Balanced Asset Allocation.
	4 : 4	Diversified Equity.
	5 : 5	International Equity.
	6 : 6	Intermediate Risk Equity.
	7 : 7	Aggressive / Exotic Equity.

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Attained Age (Last Birthday), X	0 : 35 1 : 45 2 : 55 3 : 60 4 : 65 5 : 70 6 : 75 7 : 80
Contract Duration (years-since-issue), D	0 : 0.5 2 : 6.5 4 : 12.5 1 : 3.5 3 : 9.5
Account Value-to-Guaranteed Value Ratio, ϕ	0 : 0.25 1 : 0.50 2 : 0.75 3 : 1.00 4 : 1.25 5 : 1.50 6 : 2.00
Annualized Account Charge Differential from A4.5)B) Assumptions	0 : –100 bps 1 : +0 2 : +100

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APPENDIX 5 - Scenario Calibration Criteria

A5.1) General

This Appendix outlines the requirements for the stochastic models used to simulate fund performance.[24] Specifically, it sets certain standards that must be satisfied and offers guidance to the actuary in the development and validation of the scenario models. Background material and analysis are presented to support the recommendation. The Appendix focuses on the S&P 500 as a proxy for returns on a broadly diversified U.S. equity fund, but there is also advice on how the techniques and requirements would apply to other types of funds. General modeling considerations such as the number of scenarios and projection frequency are also discussed.

The calibration points given in this Appendix are applicable to gross returns (before the deduction of any fees or charges). To determine the net returns appropriate for the projections required by the Guideline, the actuary shall reflect applicable fees and contractholder charges in the development of projected account values. The projections shall also include the costs of managing the investments and converting the assets into cash when necessary.

As a general rule, funds with higher expected returns should have higher expected volatilities and in the absence of well-documented mitigating factors (e.g., a highly reliable and favorable correlation to other fund returns), should lead to higher reserve requirements.[25]

State or path dependent models are not prohibited, but must be justified by the historic data and meet the calibration criteria. To the degree that the model uses mean-reversion or path-dependent dynamics, this must be well supported by research and clearly documented in the memorandum supporting the required actuarial certification.

The equity scenarios used to determine reserves must be available in an electronic format to facilitate any regulatory review.

A5.2) Gross Wealth Ratios

Gross Wealth Ratios derived from the stochastic return scenarios for use with a Separate Account variable fund category for diversified U.S. equities must satisfy calibration criteria consistent with that for the S&P 500 shown in the following table. Under these calibration criteria, Gross Wealth Ratios for quantiles less than 50 percent may not exceed the value from the table corresponding to the quantile, while at quantiles greater than 50 percent; Gross Wealth Ratios may not be less than the corresponding value for the quantile from the table. Gross Wealth Ratios must be tested for holding period 1, 5, 10 and 20 years throughout the projections, except as noted in section A5.3).

The "wealth factors" are defined as gross accumulated values (i.e., before the deduction of fees and charges) with complete reinvestment of income and maturities, starting with a unit investment. These can be less than 1, with "0" meaning a zero return over the holding period.

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[24] For more details on the development of these requirements, including the development of the calibration points, see the American Academy of Actuaries recommendation on C-3 Phase II risk-based capital.

[25] While the model need not strictly adhere to 'mean-variance efficiency,' prudence dictates some form of consistent risk/return relationship between the proxy investment funds. In general, it would be inappropriate to assume consistently 'superior' expected returns (i.e., risk/return point above the frontier).

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S&P 500 Total Return Gross Wealth Ratios at the Calibration Points

Calibration Point	One Year	Five Year	Ten Year	Twenty Year
2.5%	0.78	0.72	0.79	
5.0%	0.84	0.81	0.94	1.51
10.0%	0.90	0.94	1.16	2.10
90.0%	1.28	2.17	3.63	9.02
95.0%	1.35	2.45	4.36	11.7[illegible]
97.5%	1.42	2.72	5.12	

The scenarios need not strictly satisfy all calibration points, but the actuary should be satisfied that any differences do not materially reduce the resulting reserves.[26] In particular, the actuary should be mindful of which tail most affects the business being valued. If reserves are less dependent on the right (left) tail for all products under consideration (e.g., a return of premium guarantee would primarily depend on the left tail, an enhanced death benefit equal to a percentage of the gain would be most sensitive to the right tail, etc.), it is not necessary to meet the right (left) calibration points.

For models that require starting values for certain state variables,[27] long-term ('average' or 'neutral') values should be used for calibration. The same values would normally be used to initialize the models for generating the actual projection scenarios unless a clear alternative assumption can be clearly justified.[28] It should be noted that a different set of initialization parameters might produce scenarios that do not satisfy all the calibration points shown in the above table. However, the S&P 500 scenarios used to determine reserves must meet the calibration criteria.

A5.3) Calibration Requirements Beyond Twenty Years

It is possible to parameterize some path and/or state dependent models to produce higher volatility (and/or lower expected returns) in the first 20 years in order to meet the calibration criteria, but with lower volatility (and/or higher expected returns) for other periods during the forecast horizon. While this property may occur for certain scenarios (e.g., the state variables would evolve over the course of the projection and thereby affect future returns), it would be inappropriate and unacceptable for a company to alter the model parameters and/or its characteristics for periods beyond year 20 in a fashion not contemplated at the start of the projection and primarily for the purpose(s) of reducing the volatility and/or severity of ultimate returns.[29]

A5.4) Other Funds

Calibration of other markets (funds) is left to the judgment of the actuary, but the scenarios so generated must be consistent with the calibration points in the table in section A5.2). This does not imply a strict functional relationship between the model parameters for various markets/funds, but it would generally be inappropriate to assume that a market or fund consistently "outperforms" (lower risk, higher expected return relative to the efficient frontier) over the long term.

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[26] See the Preamble to the *Accounting Practices and Procedures Manual* for an explanation of materiality.

[27] For example, a stochastic log volatility ("SLV") model requires the starting volatility. Also, the regime-switching lognormal model requires an assumption about the starting regime.

[28] A clear justification exists when state variables are observable or "known" to a high degree of certainty and not merely estimated or inferred based on a "balance of probabilities."

[29] Such adjustments must be clearly documented and justified by the historic data.

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The actuary shall document the actual 1-, 5-, 10- and 20-year wealth factors of the scenarios at the same frequencies as in the "S&P 500 Total Return Gross Wealth Ratios at the Calibration Points" table in section A5.2). The annualized mean and standard deviation of the wealth factors for the 1-, 5-, 10- and 20-year holding periods must also be provided. For equity funds, the actuary shall explain the reasonableness of any significant differences from the S&P500 calibration points.

When parameters are fit to historic data without consideration of the economic setting in which the historic data emerged, the market price of risk may not be consistent with a reasonable long-term model of market equilibrium. One possibility for establishing 'consistent' parameters (or scenarios) across all funds would be to assume that the market price of risk is constant (or nearly constant) and governed by some functional (e.g., linear) relationship. That is, higher expected returns can only be garnered by assuming greater risk.[30]

Specifically, two return distributions X and Y would satisfy the following relationship:

$$\text{Market Price of Risk} = \left(\frac{\mathrm{E}[\mathrm{R}_X] - \mathrm{r}}{\sigma_X}\right) = \left(\frac{E[R_Y] - \mathrm{r}}{\sigma_Y}\right)$$

where $E[R]$ and σ are respectively the (unconditional) expected returns and volatilities and r is the expected risk-free rate over a suitably long holding period commensurate with the projection horizon. One approach to establish consistent scenarios would set the model parameters to maintain a near-constant market price of risk.

A closely related method would assume some form of 'mean-variance' efficiency to establish consistent model parameters. Using the historic data, the mean-variance (alternatively, 'drift-volatility') frontier could be a constructed from a plot of (mean, variance) pairs from a collection of world market indices. The frontier could be assumed to follow some functional form,[31] with the coefficients determined by standard curve fitting or regression techniques. Recognizing the uncertainty in the data, a 'corridor' could be established for the frontier. Model parameters would then be adjusted to move the proxy market (fund) inside the corridor.

Clearly, there are many other techniques that could be used to establishing consistency between the scenarios. While appealing, the above approaches do have drawbacks[32] and the actuary should not be overly optimistic in constructing the model parameters or the scenarios.

Funds can be grouped and projected as a single fund if such grouping is not anticipated to materially reduce reserves. However, care should be taken to avoid exaggerating the benefits of diversification. The actuary must document the development of the investment return scenarios and be able to justify the mapping of the company's variable accounts to the proxy funds used in the modeling.

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[30] As an example, the standard deviation of log returns is often used as a measure of risk.

[31] Quadratic polynomials and logarithmic functions tend to work well.

[32] For example, mean-variance measures ignore the asymmetric and fat-tailed profile of most equity market returns.

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A5.5) Correlation of Fund Returns

In constructing the scenarios for the proxy funds, the company may require parameter estimates for a number of different market indices. When more than one index is projected, it is generally necessary to allow for correlations in the simulations. It is not necessary to assume that all markets are perfectly positively correlated, but an assumption of independence (zero correlation) between the equity markets would inappropriately exaggerate the benefits of diversification. An examination of the historic data suggests that correlations are not stationary and that they tend to increase during times of high volatility or negative returns. As such, the actuary should take care not to underestimate the correlations in those scenarios used for the reserve calculations.

If the projections include the simulation of interest rates (other than for discounting surplus strain) as well as equity returns, the processes may be independent provided that the actuary can demonstrate that this assumption (i.e., zero correlation) does not materially underestimate the resulting reserves.

A5.6) Number of Scenarios and Efficiency in Estimation

For straight Monte Carlo simulation (with equally probable "paths" of fund returns), the number of scenarios should typically equal or exceed 1000. The appropriate number will depend on how the scenarios will be used and the materiality of the results. The actuary should use a number of scenarios that will provide an acceptable level of precision.

Fewer than 1000 scenarios may be used provided that the actuary has determined through prior testing (perhaps on a subset of the portfolio) that the CTE values so obtained materially reproduce the results from running a larger scenario set.

Variance reduction and other sampling techniques are intended to improve the accuracy of an estimate more efficiently than simply increasing the number of simulations. Such methods can be used provided the actuary can demonstrate that they do not lead to a material understatement of results. Many of the techniques are specifically designed for estimating means, not tail measures, and could in fact reduce accuracy (and efficiency) relative to straight Monte Carlo simulation.[33]

The above requirements and warnings are not meant to preclude or discourage the use of valid and appropriate sampling methods, such as Quasi Random Monte Carlo (QRMC), importance sampling or other techniques designed to improve the efficiency of the simulations (relative to pseudo-random Monte Carlo methods). However, the actuary should maintain documentation that adequately describes any such techniques used in the projections. Specifically, the documentation should include the reasons why such methods can be expected not to result in systematic or material under-statement of the resulting reserves compared to using pseudo-random Monte Carlo numbers.

A5.7) Frequency of Projection and Time Horizon

Use of an annual cashflow frequency ("timestep") is generally acceptable for benefits/features that are not sensitive to projection frequency. The lack of sensitivity to projection frequency should be validated by testing wherein the actuary should determine that the use of a more frequent (i.e., shorter) time step does not materially increase reserves. A more frequent time increment should always be used when the product features are sensitive to projection period frequency.

[33] However, with careful implementation, many variance reduction techniques can work well for CTE estimators. For example, see Manistre, B.J. and Hancock, G. (2003), "Variance of the CTE Estimator," 2003 Stochastic Modeling Symposium, Toronto, ON, September 2003.

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Care must be taken in simulating fee income and expenses when using an annual time step. For example, recognizing fee income at the end of each period after market movements, but prior to persistency decrements, would normally be an inappropriate assumption. It is also important that the frequency of the investment return model be linked appropriately to the projection horizon in the liability model. In particular, the horizon should be sufficiently long so as to capture the vast majority of costs (on a present value basis) from the scenarios.[34]

A5.8) Pre-Packaged Scenarios

The American Academy of Actuaries has provided 10,000 scenarios on its website[35] for the following nineteen asset classes.[36]

1) 3-month U.S. Treasury yields

2) 6-month U.S. Treasury yields

3) 1-year U.S. Treasury yields

4) 2-year U.S. Treasury yields

5) 3-year U.S. Treasury yields

6) 5-year U.S. Treasury yields

7) 7-year U.S. Treasury yields

8) 10-year U.S. Treasury yields

9) 20-year U.S. Treasury yields

10) 30-year U.S. Treasury yields

11) Money Market / Short-Term

12) U.S. Intermediate Term Government Bonds

13) U.S. Long Term Corporate Bonds

14) Diversified Fixed Income

15) Diversified Balanced Allocation

16) Diversified Large Capitalized U.S. Equity

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[34] As a general guide, the forecast horizon should not be less than 20 years.

[35] The pre-packaged scenarios can be found at http://www.actuary.org/life/phase2.asp and are fully documented at http://www.actuary.org/pdf/life/c3supp_march05.pdf.

[36] Because the reserves calculated using projections involve cash flow projections, the pre-packaged scenarios were developed under the "real world" probability measure (as opposed to a "risk-neutral" basis). Therefore, the pre-packaged scenarios may not be appropriate for purposes of projecting the market value of future hedge instruments within a projection (to the extent such instruments are used in the projections). For this purpose, it may be more appropriate to use risk neutral scenarios to determine the market value of hedge instruments in the cash flow projections that are based on real world scenarios.

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17) Diversified International Equity

18) Intermediate Risk Equity

19) Aggressive or Specialized Equity

The scenarios are available as gross monthly accumulation factors (or U.S. Treasury yields) over a 30-year horizon in comma-separated value format (**.csv*). These scenarios have been appropriately correlated so that the Kth scenario for each asset class must be used together and considered one 'future investment return scenario.'[37] Hence, the scenarios can be combined (by blending the accumulation factors[38]) to create additional 'proxy' scenarios for the company's funds.

For example, suppose the actuary wanted to construct scenarios for a 'balanced fund' that targets a 60/40 allocation between bonds and U.S. equities. If we denote $[AF^{X}]$ as the matrix of accumulation factors for asset class X, then the balanced scenarios would be defined by $[AF^{BAL}] = 0.60 \times [AF^{BOND}] + 0.40 \times [AF^{S\&P500}]$. Care should be taken to avoid exaggerating the benefits of diversification. The actuary shall document the development of the investment return scenarios and be able to justify the mapping of the company's variable accounts to the proxy funds used in the modeling.

The U.S. Treasury yields are expressed as nominal semi-annual bond equivalent yields in decimal format. All other returns are expressed as periodic (not cumulative) market accumulation factors (i.e., monthly "gross wealth ratios"). Interest rates are assumed to change at the start of each month, hence the value in column T applies for month T-1. The market accumulation factor in column T represents the growth in month T-1.

If all or a portion of these scenarios are used, then the actuary shall verify that the scenario calibration criteria are met.

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[37] It is inappropriate to misalign the ordering of scenarios (e.g., scenario J for "Diversified U.S. Equity" cannot be combined with scenario K for "Diversified International Equity," where $J \neq K$).

[38] It is important to blend the accumulation factors (not the returns) in order to achieve the desired asset mix.

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APPENDIX 6 - Allocation of the Aggregate Reserves to the Contract Level

Section IV states that the Aggregate Reserve shall be allocated to the contracts falling within the scope of the Guideline. When the Conditional Tail Expectation Amount is greater that the Standard Scenario Amount, this allocation requires that the excess be allocated to the contracts falling within the scope of the Guideline.

A6.1) Allocation when the Aggregate Reserve equals the Conditional Tail Expectation Amount

A) Single sub-grouping. When the Aggregate Reserve is equal to the Conditional Tail Expectation Amount and the Conditional Tail Expectation Amount is determined in aggregate for all contracts falling within the scope of the Guideline (i.e., a single grouping), as described in Section IV)D), the excess of the Conditional Tail Expectation Amount over the Standard Scenario Amount shall be allocated to each contract on the basis of the difference between the Standard Scenario Reserve and the Cash Surrender Value[39] on the valuation date for the contract. If the cash surrender value is not defined or not available, the Standard Scenario Amount will be the basis of allocation.

B) Multiple sub-groupings. When the Aggregate Reserve is equal to the Conditional Tail Expectation Amount and the Conditional Tail Expectation Amount is determined using more than one sub-grouping, as described in Section IV)D), the allocation of the excess of the Conditional Tail Expectation Amount over the Standard Scenario Amount shall reflect that sub-grouping of contracts used to determine the Conditional Tail Expectation Amount, as described in Section IV)D).

For example, when the Conditional Tail Expectation Amount is determined using sub-grouping, the excess of the aggregate (i.e., the total for all contracts within the scope of the Guideline) Conditional Tail Expectation Amount over the aggregate Standard Scenario Amount shall be allocated only to those contracts that are part of sub-groupings whose contributions to the Conditional Tail Expectation Amount exceed their contribution to the Standard Scenario Amount.

In the case of such sub-groupings, the excess of the aggregate Conditional Tail Expectation Amount over the aggregate Standard Scenario Amount shall be allocated to each sub-grouping in proportion to the difference between the Conditional Tail Expectation and the Standard Scenario Reserve for each sub-grouping for which that excess is positive.

Once the allocation to each sub-grouping is determined, the excess of the reserve allocated to such sub-grouping over the Standard Scenario Amount determined for that sub-grouping shall be allocated to each contract within that sub-grouping on the basis of the difference between the Standard Scenario Reserve and the Cash Surrender Value on the valuation date for the contracts. If the cash surrender value is not defined or not available, the Standard Scenario Amount will be the basis of allocation.

[39] Note that since the Standard Scenario Reserve for a contract is, by definition, greater than or equal to the Cash Surrender Value, it is understood that the difference between the Standard Scenario Reserve and the Cash Surrender Value for each contract will never be less than zero.

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As an example, consider a company with the results of the following three sub-groupings:

Sub-grouping	A	B	C	Total
Conditional Tail Expectation Amount	28	40	52	120
Standard Scenario Amount	20	45	30	95
Aggregate Reserve				**120**
(1) – (2)	8	-5	22	25
Allocation	6.67	0	18.33	25

In this example, the excess of the Conditional Tail Expectation Amount over the Standard Scenario Amount, in aggregate, equals 25 (i.e., the "Total" column of row 1 less row 2, or 120 – 95). This excess of 25 would be allocated only to those contracts that are part of sub-groupings whose contributions to the Conditional Tail Expectation Amount exceed their contributions to the Standard Scenario Amount. In this example, that would be contracts in sub-groupings A and C (since in sub-grouping B, the contribution to the Standard Scenario Amount exceeds the contribution to the Conditional Tail Expectation Amount). Therefore, the excess of 25 would be allocated to the contracts in sub-groupings A and C in proportion to the difference between the Conditional Tail Expectation Amount and the Standard Scenario Reserve for those sub-groupings (i.e. row 4). In this example, the total difference between the Conditional Tail Expectation Amount and the Standard Scenario Reserve for the contracts in sub-groupings A and C equals 8 + 22, or 30. This would result in 8/30 of the excess of the Conditional Tail Expectation Amount over the Standard Scenario Amount (or 6.67) to be allocated to the contracts in sub-groupings A and 22/30 of the excess of the Conditional Tail Expectation Amount over the Standard Scenario Amount (or 18.33) to be allocated to the contracts in sub-groupings C as shown on line (5) above.

In this example, the allocation of the Aggregate Reserve to contracts within sub-grouping B would equal the Standard Scenario Reserve for those contracts (as described in section A6.2) below). For sub-groupings A and C, the difference between the allocation of the Aggregate Reserve to each of those sub-grouping and the Standard Scenario Amount determined for each of those sub-grouping would be allocated to each contract within each of those sub-groupings based on the difference between the Standard Scenario Reserve and the Cash Surrender Value for each of the contracts within the relevant sub-group. The result would be an allocated Aggregate Reserve for a given contract that would be equal to the Standard Scenario Reserve for that contract plus the amount of the difference between 1) and 2) below that is allocated to that contract, where:

1) Equals the allocation of the Aggregate Reserve to that contract's sub-grouping; and

2) Equals the Standard Scenario Amount determined for that contract's sub-grouping.

A6.2) Allocation when the Aggregate Reserve equals the Standard Scenario Amount

The Standard Scenario Amount, as required by Section IV)C), is calculated on a contract-by-contract basis, as described in Appendix 3. Therefore, when the Aggregate Reserve is equal to the Standard Scenario Amount, the reserve allocated to each contract shall be the reserve calculated for each contract under the Standard Scenario method.

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APPENDIX 7 – Modeling of Hedges

A7.1) Initial Considerations

The appropriate costs and benefits of hedging instruments that are currently held by the company in support of the contracts falling under the scope of the Guideline (excluding those that involve the offsetting of the risks associated with variable annuity guarantees with other products outside of the scope of the Guideline, such as equity-indexed annuities) shall be included in the calculation of the Conditional Tail Expectation Amount, determined in accordance with Section IV)D) and section A1.4) of the Guideline (i.e., Conditional Tail Expectation Amount using projections). If the company is following a Clearly Defined Hedging Strategy ("hedging strategy"), as defined in Section III, in accordance with an investment policy adopted by the Board of Directors, or a committee of Board members, the company is eligible to reduce the amount of the Conditional Tail Expectation Amount using projections otherwise calculated. The investment policy must clearly articulate the company's hedging objectives, including the metrics that drive rebalancing/trading. This specification could include maximum tolerable values for investment losses, earnings, volatility, exposure, etc. in either absolute or relative terms over one or more investment horizons vis-à-vis the chance of occurrence. Company management is responsible for developing, documenting, executing and evaluating the investment strategy, including the hedging strategy, used to implement the investment policy.

For this purpose, the investment assets refer to all the assets including derivatives supporting covered products and guarantees. This is also referred to as the investment portfolio. The investment strategy is the set of all asset holdings at all points in time in all scenarios. The hedging portfolio, which is also referred to as the hedging assets, is a subset of the investment assets. The hedging strategy is the hedging asset holdings at all points in time in all scenarios. There is no attempt to distinguish what is the hedging portfolio and what is the investment portfolio in this Appendix. Nor is the distinction between investment strategy and hedging strategy formally made here. Where necessary to give effect to the intent of this Appendix, the requirements applicable to the hedging portfolio or the hedging strategy are to apply to the overall investment portfolio and investment strategy.

This particularly applies to restrictions on the reasonableness or acceptability of the models that make up the stochastic cash flow model used to perform the projections, since these restrictions are inherently restrictions on the joint modeling of the hedging and non-hedging portfolio. To give effect to these requirements, they must apply to the overall investment strategy and investment portfolio.

The cost and benefits of hedging instruments that are currently held by the company in support of the contracts falling under the scope of the Guideline shall be included in the stochastic cash flow model used to calculate the Conditional Tail Expectation Amount in accordance with Section IV)D) (the "model"). If the company is following a Clearly Defined Hedging Strategy, the model shall take into account the cost and benefits of hedge positions expected to be held by the company in the future based on the operation of the hedging strategy.

Before either a new or revised hedging strategy can be used to reduce the amount of the Conditional Tail Expectation Amount otherwise calculated, the hedging strategy should be in place (i.e., effectively implemented by the company) for at least three months. The company may meet the time requirement by having evaluated the effective implementation of the hedging strategy for at least three months without actually having executed the trades indicated by the hedging strategy (e.g., mock testing or by having effectively implemented the strategy with similar annuity products for at least three months).

These requirements do not supersede any statutes, laws, or regulations of any state or jurisdiction related to the use of derivative instruments for hedging purposes and should not be used in determining whether a company is permitted to use such instruments in any state or jurisdiction.

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A7.2) Background

The analysis of the impact of the hedging strategy on cash flows is typically performed using either one of two methods as described below. Although a hedging strategy would normally be expected to reduce risk provisions, the nature of the hedging strategy and the costs to implement the strategy may result in an increase in the amount of the Conditional Tail Expectation Amount otherwise calculated.

The fundamental characteristic of the first method is that all hedging positions, both the currently held positions and those expected to be held in the future, are included in the stochastic cash flow model used to determine the Scenario Greatest Present Value, as discussed in Section IV)D), for each scenario.

The fundamental characteristic of the second method is that the effectiveness of the current hedging strategy (including currently held hedge positions) on future cash flows is evaluated, in part or in whole, outside of the stochastic cash flow model. In this case, the reduction to the Conditional Tail Expectation Amount otherwise calculated should be commensurate with the degree of effectiveness of the hedging strategy in reducing accumulated deficiencies otherwise calculated.

Regardless of the methodology used by the company, the ultimate effect of the current hedging strategy (including currently held hedge positions), on the Conditional Tail Expectation Amount needs to recognize all risks, associated costs, imperfections in the hedges and hedging mismatch tolerances associated with the hedging strategy. The risks include, but are not limited to: basis, gap, price, parameter estimation, and variation in assumptions (mortality, persistency, withdrawal, annuitization, etc.). Costs include, but are not limited to: transaction, margin (opportunity costs associated with margin requirements) and administration. In addition, the reduction to the Conditional Tail Expectation Amount attributable to the hedging strategy may need to be limited due to the uncertainty associated with the company's ability to implement the hedging strategy in a timely and effective manner. The level of operational uncertainty varies indirectly with the amount of time that the new or revised strategy has been in effect or mock tested.

No hedging strategy is perfect. A given hedging strategy may eliminate or reduce some but not all risks, transforms some risks into others, introduces new risks or has other imperfections. For example, a delta-only hedging strategy does not adequately hedge the risks measured by the "Greeks" other than delta. Another example is that financial indices underlying typical hedging instruments typically do not perform exactly like the separate account funds, and hence the use of hedging instruments has the potential for introducing basis risk.

A7.3) Calculation of CTE Amount (reported)

The company should begin by calculating "CTE Amount (best efforts)" – the results obtained when the Conditional Tail Expectation Amount (or "CTE Amount") is based on incorporating the hedging strategy (including currently held hedge positions) into the stochastic cash flow model, including all of the factors and assumptions needed to execute the hedging strategy (e.g., stochastic implied volatility).

Because most models will include at least some approximations or idealistic assumptions, CTE Amount (best efforts) may overstate the impact of the hedging strategy. To compensate for potential overstatement of the impact of the hedging strategy, the company shall recalculate the Conditional Tail Expectation Amount assuming the company has no dynamic hedging strategy (i.e., reflect only hedge positions held by the company on the valuation date. The result so obtained is called "CTE Amount (adjusted)." In some situations the determination of CTE Amount (adjusted) may include both direct and indirect techniques.

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Finally, the reported value for the Conditional Tail Expectation Amount is given by:
CTE Amount (reported) = E x CTE Amount (best efforts) +
(1 – E) × CTE Amount (adjusted)

The value for E (an "effectiveness factor") reflects the actuary's view as to the level of sophistication of the stochastic cash flow model and its ability to properly reflect the parameters of the hedging strategy (i.e., the "Greeks" being covered by the strategy) as well as the associated costs, risks, and benefits E will be no greater than 0.70. As the sophistication of the stochastic cash flow model increases, the value for E increases (i.e., the greater the ability of the CTE Amount (best efforts) model to capture all risks and uncertainties, the higher the value of E). If the model used to determine the "CTE Amount (best efforts)" effectively reflects all of the parameters used in the hedging strategy, the value of E may be up to 0.70. If certain economic risks are not hedged, yet the model does not generate scenarios that sufficiently capture those risks, E must be in the lower end of the range. If hedge cash flows are not modeled directly, E will be no greater than 0.30. Simplistic hedge cash flow models will have a value of E in the low range between 0.00 and 0.70.

Additionally, the company shall demonstrate that, based on an analysis of at least the most recent 12 months, the model is able to replicate the hedging strategy in a way that justifies the value used for E. A company that does not have 12 months of experience to date shall set E to a value no greater than 0.30.

A7.4) Specific Considerations and Requirements

As part of the process of choosing a methodology and assumptions for estimating the future effectiveness of the current hedging strategy (including currently held hedge positions) for purposes of reducing the Conditional Tail Expectation Amount, the actuary should review actual historical hedging effectiveness. The actuary shall evaluate the appropriateness of the assumptions on future trading, transaction costs, and other elements of the model, the strategy, the mix of business, and other items that are likely to result in materially adverse results. This includes an analysis of model assumptions that, when combined with the reliance on the hedging strategy, are likely to result in adverse results relative to those modeled. The parameters and assumptions shall be adjusted (based on testing contingent on the strategy used and other assumptions) to levels that fully reflect the risk based on historical ranges and foreseeable future ranges of the assumptions and parameters. If this is not possible by parameter adjustment, the model shall be modified to reflect them at either Anticipated Experience or adverse estimates of the parameters.

A discontinuous hedging strategy is a hedging strategy where the relationships between the sensitivities to equity markets and interest rates (commonly referred to as the Greeks) associated with the guaranteed contractholder options embedded in the variable annuities and other in-scope products and these same sensitivities associated with the hedging assets are subject to material discontinuities. This includes, but is not limited to, a hedging strategy where material hedging assets will be obtained when the variable annuity account balances reach a predetermined level in relationship to the guarantees. Any hedging strategy, including a delta hedging strategy, can be a discontinuous hedging strategy if implementation of the strategy permits material discontinuities between the sensitivities to equity markets and interest rates associated with the guaranteed contractholder options embedded in the variable annuities and other in-scope products and these same sensitivities associated with the hedging assets. There may be scenarios that are particularly costly to discontinuous hedging strategies, especially where those result in large discontinuous changes in sensitivities (Greeks) associated with the hedging assets. Where discontinuous hedging strategies contribute materially to a reduction in the Conditional Tail Expectation Amount, the actuary must evaluate the interaction of future trigger definitions and the discontinuous hedging strategy, in addition to the items mentioned in the previous paragraph. This includes an analysis of model assumptions that, when combined with the reliance on the discontinuous hedging strategy, may result in adverse results relative to those modeled.

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Implementing a strategy that has a strong dependence on acquiring hedging assets at specific times that depend on specific values of an index or other market indicators may not be implemented as precisely as planned.

The combination of elements of the stochastic cash flow model, including the initial actual market asset prices, prices for trading at future dates, transaction costs, and other assumptions should be analyzed by the actuary as to whether the stochastic cash flow model permits hedging strategies that make money in some scenarios without losing a reasonable amount in some other scenarios. This includes, but is not limited to:

A) Hedging strategies with no initial investment that never lose money in any scenario and in some scenarios make money; or

B) Hedging strategies that with a given amount of initial money never make less than accumulation at the one-period risk free rates in any scenario but make more than this in one or more scenarios.

If the stochastic cash flow model allows for such situations, the actuary should be satisfied that the results do not materially rely directly or indirectly on the use of such strategies. In addition, the actuary should disclose the situations and provide supporting documentation as to why the actuary believes the situations are not material for determining the Conditional Tail Expectation Amount. If the results do materially rely directly or indirectly on the use of such strategies, the strategies may not be used to reduce the Conditional Tail Expectation Amount otherwise calculated.

In addition to the above, the method used to determine prices of financial instruments for trading in scenarios should be compared to actual initial market prices. If there are substantial discrepancies, the actuary should disclose the substantial discrepancies and provide supporting documentation as to why the model-based prices are appropriate for determining the Conditional Tail Expectation Amount. In addition to comparisons to initial market prices, there should be testing of the pricing models that are used to determine subsequent prices when scenarios involve trading financial instruments. This testing should consider historical relationships. For example, if a method is used where recent volatility in the scenario is one of the determinants of prices for trading in that scenario, then that model should approximate actual historic prices in similar circumstances in history.

A7.5) Certification and Documentation

The actuary must provide a certification that the values for E, CTE Amount (adjusted) and CTE Amount (best efforts) were calculated using the process discussed above and the assumptions used in the calculations were reasonable for the purpose of determining the Conditional Tail Expectation Amount. The actuary shall document the method(s) and assumptions (including data) used to determine CTE Amount (adjusted) and CTE Amount (best efforts) and maintain adequate documentation as to the methods, procedures and assumptions used to determine the value of E.

The actuary must provide a certification as to whether the Clearly Defined Hedging Strategy is fully incorporated into the stochastic cash flow model and any supplementary analysis of the impact of the hedging strategy on the Conditional Tail Expectation Amount. The actuary must document the extent to which elements of the hedging strategy (e.g., time between portfolio rebalancing) are not fully incorporated into the stochastic cash flow model and any supplementary analysis to determine the impact, if any. In addition, the actuary must provide a certification and maintain documentation to support the certification that the hedging strategy designated as the Clearly Defined Hedging Strategy meets the requirements of a Clearly Defined Hedging Strategy including that the implementation of the hedging strategy in the stochastic cash flow model and any supplementary analysis does not include knowledge of events that occur after any action dictated by the hedging strategy (i.e. the model cannot use information about the future that would not be known in actual practice).

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A financial officer of the company (e.g., Chief Financial Officer, Treasurer or Chief Investment Officer) or a person designated by them who has direct or indirect supervisory authority over the actual trading of assets and derivatives must certify that the hedging strategy meets the definition of a Clearly Defined Hedging Strategy and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day to day risk mitigation efforts.

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APPENDIX 8 – Certification Requirements

A8.1) Management Certification

Management must provide signed and dated written representations as part of the valuation documentation that the valuation appropriately reflects management's intent and ability to carry out specific courses of actions on behalf of the entity where such is relevant to the valuation. This certification will be submitted no later than March 1. Upon written request by the company, the commissioner may grant an extension of the date for submission of the certification.

A8.2) Actuarial Certification

A) General Description. The certification shall be provided by a qualified actuary and consist of at least the following:

1) A paragraph identifying the actuary and his or her qualifications;

2) A scope paragraph identifying the reserves as of the valuation date for contracts included in the certification categorized by the approaches used to determine the reserves (e.g., Alternative Methodology, Projections, Standard Scenario);

3) A reliance paragraph describing those areas, if any, where the certifying actuary has relied on other experts;
   a) A reliance statement from each of those relied on should accompany the certification.
   b) The reliance statements should note the information being provided and a statement as to the accuracy, completeness or reasonableness, as applicable, of the information.

4) A paragraph certifying that the reserve was calculated in accordance with the principles and requirements of the Guideline;

5) A paragraph certifying that the assumptions used for these calculations are Prudent Estimate assumptions for the products, scenarios, and purpose being tested; and

6) A paragraph stating that the qualified actuary is not opining on the adequacy of the company's surplus or its future financial condition.

7) This certification will be submitted no later than March 1. Upon written request by the company, the commissioner may grant an extension of the date for submission of the certification.

A8.3) Supporting Memorandum

A) General Description. A supporting memorandum shall be created to document the methodology and assumptions used to determine the Aggregate Reserve. The information shall include the comparison of the Standard Scenario Amount to the Conditional Tail Expectation Amount required by Section IV)A) in the determination of the Aggregate Reserve.

B) Alternative Methodology using Published Factors.

1) If a seriatim approach was not used, disclose how contracts were grouped.

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2) Disclosure of assumptions to include:
   a) Component CA
      (i) Mapping to prescribed asset categories
      (ii) Lapse and withdrawal rates
   b) Component FE
      (i) Determination of fixed dollar costs and revenues
      (ii) Lapse and withdrawal rates
      (iii) Inflation rates
   c) Component GC
      (i) Disclosure of contract features and how the company mapped the contract form to those forms covered by the Alternative Methodology factors
         - Product Definition - If not conservatively assigned to a published factor, company specific factors or stochastic modeling is required.
         - Partial Withdrawal Provision
         - Fund Class - Disclose the process used to determine the single asset class that best represents the exposure for a contract. If individual funds are mapped into prescribed categories, the process used to map the individual funds should be disclosed.
         - Attained Age
         - Contract Duration
         - Ratio of Account Value to Guaranteed Value
         - Annualized Account Charge Differential from Base Assumption
      (ii) Derivation of Equivalent Account Charges
      (iii) Derivation of margin offset
      (iv) Disclosure of interpolation procedures and confirmation of node determination

3) Disclosure, if applicable, of reinsurance that exists and how it was handled in applying published factors (For some reinsurance, creation of company-specific factors or stochastic modeling may be required.).
   a) Discuss how reserves before reinsurance were determined.

C) Alternative Factors based on Company-Specific Factors.

1) Disclosure of requirements consistent with Published Factors, as noted in subsection B) above.

2) Stochastic analysis supporting adjustments to published factors should be fully documented. This analysis needs to be submitted when initially used and be available upon request in subsequent years. Adjustments may include:
   a) Contract design;
   b) Risk mitigation strategy (excluding hedging); and
   c) Reinsurance.

D) Stochastic Modeling.

1) Assets
   a) Description including type and quality
   b) Investment & disinvestment assumptions
   c) Describe assets used at the start of the projection
   d) Source of asset data

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e) Asset valuation basis
f) Documentation of assumptions
   (i) Default costs
   (ii) Prepayment functions
   (iii) Market value determination
   (iv) Yield on assets acquired
   (v) Mapping and grouping of funds to modeled asset classes
g) Hedging Strategy
   (i) Documentation of strategy
   (ii) Identification of current positions
   (iii) Description on how strategy was incorporated into modeling
      - Basis risk, gap risk, price risk, assumption risk
      - Document the methods and criterion used to estimate the a priori effectiveness of the hedging strategy
   (iv) Documentation required for specific consideration raised in section A7.4).
   (v) Documentation and certification required by section A7.5).

2) Liabilities
   a) Product descriptions
   b) Source of Liabilities
   c) Grouping of contracts
   d) Reserve method and modeling (e.g., Working Reserves were set to CSV)
   e) Investment Reserves
   f) Describe how reinsurance was handled in the models, including how reserves gross of reinsurance were modeled.
   g) Documentation of assumptions (i.e., list assumptions, discuss the sources and the rationale for using the assumptions).
      (i) Premiums and subsequent deposits
      (ii) Withdrawal, Lapse and Termination Rates
         - Partial Withdrawal (including treatment of dollar-for-dollar offsets on GMDBs and VAGLBs, and Required Minimum Distributions
         - Lapses / Surrenders
      (iii) Crediting Strategy
      (iv) Mortality
      (v) Annuitization rates
      (vi) Income Purchase rates
      (vii) GMIB and GMWB Utilization rates
      (viii) Commissions
      (ix) Expenses
      (x) Persistency Bonuses
      (xi) Investment / Fund Choice
      (xii) Revenue Sharing
      (xiii) Asset Allocation, Rebalancing and Transfer Assumptions
         - Dollar Cost Averaging
   h) The section showing the assumptions used for lapse and utilization assumptions for contracts with guaranteed living benefits in the development of the Conditional Tail Expectation Amount, as described in section A9.7).

3) Scenarios
   a) Description of scenario generation for interest rates and equity returns

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(i) Disclose the number "n" of scenarios used and the methods used to determine the sampling error of the CTE (70) statistic when using "n" scenarios.
(ii) Time step of model (e.g., monthly, quarterly, annual)
(iii) Correlation of fund returns

b) Calibration
(i) Gross Wealth Ratios for equity funds
- Disclosure of adjustments to model parameters, if any.
- Disclosure of 1-year, 5-year and 10-year wealth factors as well as mean and standard deviation.
(ii) Consistency of other funds to equity funds
(iii) Correlation between all funds
(iv) Estimate of market return volatility assumptions underlying the generated scenarios compared to actual observed volatility underlying market values.

c) Extent of use of pre-packaged scenarios and support for mapping variable accounts to proxy funds

4) Description and results of sensitivity tests performed. At the request of the domiciliary commissioner, the company shall provide a sensitivity test showing an estimate of the impact of the market return volatility assumption when market volatility is materially higher than assumed in the generated scenarios.

5) Documentation of all material changes in the model or assumptions from that used previously and the estimated impact of such changes. This documentation, or a summary of this documentation, shall be included in an executive summary or some other prominent place in the memorandum.

6) A description of the method used to validate the model and a summary of the results of the validation testing.

E) Standard Scenario.

1) For the amounts in 2), 3) and 4) below report the Basic Reserve in A3.3)B)2)a), the projection requirements in A3.3)B)2)b), the value of Aggregate reinsurance in A3.3)D)1), the value of hedges in A3.3)D)2), the total allocation of the value of hedges and Aggregate reinsurance in A3.3)B)2)c) and the Standard Scenario Reserve.

2) Report the Standard Scenario Amount as of the valuation date.

3) If applicable, report the Standard Scenario Amount on the inforce prior to the valuation date that was used to project the reserve requirements to the valuation date.

4) If applicable, report the Standard Scenario Amount on the model office used to represent the inforce.

5) Discuss modifications, if any, in the application of the standard scenario requirements to produce the amounts in 2), 3) and 4) above.

6) Document any assumptions, judgments or procedures not prescribed in the Standard Scenario Method or in the Guideline that are used to produce the Standard Scenario Amount.

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7) If applicable, documentation of approval by the commissioner to use the Basic Reserve as the Standard Scenario Amount.

8) Document the company's calculation of DR.

9) Document the allocation of funds to Equity, Bond, Balanced and Fixed classes.

10) A statement by the actuary that none of the reinsurance treaties included in the Standard Scenario serve solely to reduce the calculated Standard Scenario Reserve without also reducing risk on scenarios similar to those used to determine the Conditional Tail Expectation Reserve. This should be accompanied by a description of any reinsurance treaties that have been excluded from the Standard Scenario along with an explanation of why the treaty was excluded.

F) The memorandum shall be made available for examination by the commissioner upon his or her request but shall be returned to the company after such examination and shall not be considered a record of the insurance department or subject to automatic filing with the commissioner.

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APPENDIX 9 – Contractholder Behavior

A9.1) General

Contractholder behavior assumptions encompass actions such as lapses, withdrawals, transfers, recurring deposits, benefit utilization, option election, etc. Contractholder behavior is difficult to predict and behavior assumptions can significantly impact the results. In the absence of relevant and fully credible empirical data, the actuary should set behavior assumptions on the conservative end of the plausible spectrum (consistent with the definition of Prudent Estimate).

In setting behavior assumptions, the actuary should examine, but not be limited by, the following considerations:

1) Behavior can vary by product, market, distribution channel, fund performance, time/product duration, etc.

2) Options embedded in the product may impact behavior.

3) Options may be elective or non-elective in nature. Living benefits are often elective and death benefit options are generally non-elective.

4) Elective contractholder options may be more driven by economic conditions than non-elective options.

5) As the value of a product option increases, there is an increased likelihood that contractholders will behave in a manner that maximizes their financial interest (e.g., lower lapses, higher benefit utilization, etc.).

6) Behavior formulas may have both rational and irrational components (irrational behavior is defined as situations where some contractholders may not always act in their best financial interest). The rational component should be dynamic but the concept of rationality need not be interpreted in strict financial terms and might change over time in response to observed trends in contractholder behavior based on increased or decreased financial efficiency in exercising their contractual options.

7) Options that are ancillary to the primary product features may not be significant drivers of behavior. Whether an option is ancillary to the primary product features depends on many things such as:
   a) For what purpose was the product purchased?
   b) Is the option elective or non-elective?
   c) Is the value of the option well known?

8) External influences, including emergence of viatical / life settlement companies, may impact behavior.

A9.2) Aggregate vs. Individual Margins

As noted in Section III)B)8), Prudent Estimate assumptions are developed by applying a margin for uncertainty to the Anticipated Experience assumption. The issue of whether the level of the margin applied to the Anticipated Experience assumption is determined in aggregate or independently for each and every behavior assumption is discussed in Principle 3 in Section II) of this Guideline, which states:

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> The choice of a conservative estimate for each assumption may result in a distorted measure of the total risk. Conceptually, the choice of assumptions and the modeling decisions should be made so that the final result approximates what would be obtained for the Conditional Tail Expectation Amount at the required CTE level if it were possible to calculate results over the joint distribution of all future outcomes. In applying this concept to the actual calculation of the Conditional Tail Expectation Amount, the actuary should be guided by evolving practice and expanding knowledge base in the measurement and management of risk.

Although this Principle discusses the concept of determining the level of margins in aggregate, it notes that the application of this concept shall be guided by evolving practice and expanding knowledge. From a practical standpoint, it may not always be possible to completely apply this concept to determine the level of margins in aggregate for all behavior assumptions.

Therefore, the actuary shall determine Prudent Estimate assumptions independently for each behavior (e.g., mortality lapses, and benefit utilization), using the requirements and guidance in this Appendix and throughout the guideline, unless the actuary can demonstrate that an appropriate method was used to determine the level of margin in aggregate for two or more behaviors.

A9.3) Sensitivity Testing

The impact of behavior can vary by product, time period, etc. Sensitivity testing of assumptions is required and shall be more complex than e.g., base lapse assumption minus 1% across all contracts. A more appropriate sensitivity test in this example might be to devise parameters in a dynamic lapse formula to reflect more out-of-the-money contracts lapsing and/or more holders of in-the-money contracts persisting and eventually utilizing the guarantee. The actuary should apply more caution in setting assumptions for behaviors where testing suggests that stochastic modeling results are sensitive to small changes in such assumptions. For such sensitive behaviors, the actuary shall use higher margins when the underlying experience is less than fully relevant and credible.

A9.4) Specific Considerations and Requirements

Within materiality considerations, the actuary should consider all relevant forms of contractholder behavior and persistency, including but not limited to the following:

1) Mortality (additional guidance and requirements regarding mortality is contained in Appendix A10)

2) Surrenders

3) Partial Withdrawals (Systematic and Elective)

4) Fund Transfers (Switching/Exchanges)

5) Resets/Ratchets of the Guaranteed Amounts (Automatic and Elective)

6) Future Deposits

It may be acceptable to ignore certain items that might otherwise be explicitly modeled in an ideal world, particularly if the inclusion of such items reduces the calculated provisions. For example:

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1) The impact of fund transfers (intra-contract fund "switching") might be ignored, unless required under the terms of the contract (e.g., automatic asset re-allocation/rebalancing, dollar cost averaging accounts, etc.)

2) Future deposits might be excluded from the model, unless required by the terms of the contracts under consideration and then only in such cases where future premiums can reasonably be anticipated (e.g., with respect to timing and amount).

However, the actuary should exercise caution in assuming that current behavior will be indefinitely maintained. For example, it might be appropriate to test the impact of a shifting asset mix and/or consider future deposits to the extent they can reasonably be anticipated and increase the calculated amounts.

Normally, the underlying model assumptions would differ according to the attributes of the contract being valued. This would typically mean that contractholder behavior and persistency may be expected to vary according to such characteristics as (this is not an exhaustive list):

1) Gender

2) Attained age

3) Issue age

4) Contract duration

5) Time to maturity

6) Tax status

7) Fund value

8) Investment option

9) Guaranteed benefit amounts

10) Surrender charges, transaction fees or other contract charges

11) Distribution channel

Unless there is clear evidence to the contrary, behavior assumptions should be no less conservative than past experience. Margins for contractholder behavior assumptions shall assume, without relevant and credible experience or clear evidence to the contrary, that contractholders' efficiency will increase over time.

In determining contractholder behavior assumptions, the company shall use actual experience data directly applicable to the business segment (i.e., direct data) if it is available. In the absence of direct data, the company should then look to use data from a segment that are similar to the business segment (i.e., other than direct experience), whether or not the segment is directly written by the company. If data from a similar business segment are used, the assumption shall be adjusted to reflect differences between the two segments. Margins shall reflect the data uncertainty associated with using data from a similar but not identical business segment. The actuary shall document any significant similarities or differences between the two business segments, the data quality of the similar business segment and the adjustments and the margins applied.

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Where relevant and fully credible empirical data do not exist for a given contractholder behavior assumption, the actuary shall set the contractholder behavior assumption to reflect the increased uncertainty such that the contractholder behavior assumption is shifted towards the conservative end of the plausible range of expected experience that serves to increase the Aggregate Reserve. If there are no relevant data, the actuary shall set the contractholder behavior assumption to reflect the increased uncertainty such that the contractholder behavior assumption is at the conservative end of the range. Such adjustments shall be consistent with the definition of Prudent Estimate, with the Principles described in Section I, and with the guidance and requirements in this Appendix.

Ideally, contractholder behavior would be modeled dynamically according to the simulated economic environment and/or other conditions. It is important to note, however, that contractholder behavior should neither assume that all contractholders act with 100% efficiency in a financially optimal manner nor assume that contractholders will always act irrationally.

A9.5) Dynamic Assumptions

Consistent with the concept of Prudent Estimate assumptions described earlier, the liability model should incorporate margins for uncertainty for all risk factors which are not dynamic (i.e., the non-scenario tested assumptions) and are assumed not to vary according to the financial interest of the contractholder.

The actuary should exercise care in using static assumptions when it would be more natural and reasonable to use a dynamic model or other scenario-dependent formulation for behavior. With due regard to considerations of materiality and practicality, the use of dynamic models is encouraged, but not mandatory. Risk factors which are not scenario tested, but could reasonably be expected to vary according to a stochastic process, or future states of the world (especially in response to economic drivers) may require higher margins and/or signal a need for higher margins for certain other assumptions.

Risk factors that are modeled dynamically should encompass the plausible range of behavior consistent with the economic scenarios and other variables in the model, including the non-scenario tested assumptions. The actuary shall test the sensitivity of results to understand the materiality of making alternate assumptions and follow the guidance discussed above on setting assumptions for sensitive behaviors.

A9.6) Consistency with the CTE Level

All behaviors (i.e., dynamic, stochastic and non-scenario tested) should be consistent with the scenarios used in the CTE calculations (generally, the approximately top 1/3 of the loss distribution). To maintain such consistency, it is not necessary to iterate (i.e., successive runs of the model) in order to determine exactly which scenario results are included in the CTE measure. Rather, in light of the products being valued, the actuary should be mindful of the general characteristics of those scenarios likely to represent the tail of the loss distribution and consequently use Prudent Estimate assumptions for behavior that are reasonable and appropriate in such scenarios. For variable annuities, these "valuation" scenarios would typically display one or more of the following attributes:

1) Declining and/or volatile separate account asset values;

2) Market index volatility, price gaps and/or liquidity constraints;

3) Rapidly changing interest rates.

The behavior assumptions should be logical and consistent both individually and in aggregate, especially in the scenarios that govern the results. In other words, the actuary should not set behavior assumptions in isolation, but give due consideration to other elements of the model. The interdependence of assumptions

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(particularly those governing customer behaviors) makes this task difficult and by definition requires professional judgment, but it is important that the model risk factors and assumptions:

1) Remain logically and internally consistent across the scenarios tested;

2) Represent plausible outcomes; and

3) Lead to appropriate, but not excessive, asset requirements.

The actuary should remember that the continuum of "plausibility" should not be confined or constrained to the outcomes and events exhibited by historic experience.

Companies should attempt to track experience for all assumptions that materially affect their risk profiles by collecting and maintaining the data required to conduct credible and meaningful studies of contractholder behavior.

A9.7) Additional Considerations and Requirements for Assumptions Applicable to Guaranteed Living Benefits

Experience for contracts without guaranteed living benefits may be of limited use in setting a lapse assumption for contracts with in-the-money or at-the-money guaranteed living benefits. Such experience may only be used if it is appropriate (e.g., lapse experience on contracts without a living benefit may have relevance to the early durations of contracts with living benefits, and relevant to the business and is accompanied by documentation that clearly demonstrates the relevance of the experience, as discussed in the following paragraph.

The supporting memorandum required by Appendix A of this Guideline, shall include a separately identifiable section showing the assumptions used for lapse and utilization assumptions for contracts with guaranteed living benefits in the development of the Conditional Tail Expectation Amount. This section shall be considered part of the supporting memorandum and shall show the formulas used to set the assumptions and describe the key parameters affecting the level of the assumption (e.g., age, duration, in-the-moneyness, during and after the surrender charge period). The section shall include a summary that shows the lapse and utilization rates that result from various combinations of the key parameters. The section shall show any experience data used to develop the assumptions and describe the source, relevance and credibility of that data. If relevant and credible data were not available, the section should discuss how the assumption is consistent with the requirement that the assumption is to be on the conservative end of the plausible range of expected experience. The section shall also discuss the sensitivity tests performed to support the assumption. This separately identifiable section shall be made available on a standalone basis if requested by the Domiciliary Commissioner. If it is requested, the section shall have the same confidential status as the supporting memorandum and the actuarial memorandum supporting the actuarial opinion, as discussed in section A2.3)B).

Regarding lapse assumptions for contracts with guaranteed living benefits, the section shall include, at a minimum, the following:

1) Actual to expected lapses on two bases, where "expected" equals one of the following:
   a) Prudent estimate assumptions used in the development of the Conditional Tail Expectation Amount;
   b) The assumptions used in the Standard Scenario;

2) The lapse assumptions used in the development of Conditional Tail Expectation Amount and corresponding actual experience separated by:

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a) Logical blocks of business (based on company's assessment);
b) Duration (at a minimum this should show during the surrender charge period vs. after the surrender charge period);
c) In-the-moneyness (consistent with how dynamic assumptions are determined); and
d) Age (to the extent age impacts the election of benefits lapse).

This data shall be separated by experience incurred in the following periods:

a) In the past year;
b) In the past three years; and
c) All years.

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APPENDIX 10 – Specific Guidance and Requirements for Setting Prudent Estimate Mortality Assumptions

A10.1) Overview

A) Intent. The guidance and requirements in this Appendix apply for setting Prudent Estimate mortality assumptions when determining the Conditional Tail Expectation Amount (whether using projections or the Alternative Methodology). The intent is for Prudent Estimate mortality assumptions to be based on facts, circumstances and appropriate actuarial practice (where more than one approach to appropriate actuarial practice exists, the actuary should select the practice that the actuary deems most appropriate under the circumstances) with only a limited role for unsupported actuarial judgment.

B) Description. Prudent Estimate mortality assumptions are determined by first developing expected mortality curves based on either available experience or published tables. Where necessary, margins are applied to the experience to reflect data uncertainty. The expected mortality curves are then adjusted based on the credibility of the experience used to determine the expected mortality curve. Section A10.2) addresses guidance and requirements for determining expected mortality curves and section A10.3) addresses guidance and requirements for adjusting the expected mortality curves to determine Prudent Estimate mortality.

Finally, the credibility-adjusted tables shall be adjusted for mortality improvement (where such adjustment is permitted or required) using the guidance and requirements in section A10.4).

C) Business Segments. For purposes of setting Prudent Estimate mortality assumptions, the products falling under the scope of the Guideline shall be grouped into business segments with different mortality assumptions. The grouping should generally follow the pricing, marketing, management and/or reinsurance programs of the company. Where less refined segments are used for setting the mortality assumption than is used in business management the documentation should address the impact, if material, of the less refined segmentation on the resulting reserves.

D) Margin for Data Uncertainty. The expected mortality curves that are determined in section A10.2) may need to include a margin for data uncertainty. The margin could be in the form of an increase or a decrease in mortality, depending on the business segment under consideration. The margin shall be applied in a direction (i.e., increase or decrease in mortality) that results in a higher reserve. A sensitivity test may be needed to determine the appropriate direction of the provision for uncertainty to mortality. The test could be a prior year mortality sensitivity analysis of the business segment or an examination of current representative cells of the segment.

For purposes of this Appendix, if mortality must be increased (decreased) to provide for uncertainty the business segment is referred to as a plus (minus) segment.

It may be necessary, because of a change in the mortality risk profile of the segment, to reclassify a business segment from a plus (minus) segment to a minus (plus) segment to the extent compliance with this subsection requires such a reclassification.

A10.2) Determination of Expected Mortality Curves

A) Experience Data. In determining expected mortality curves the company shall use actual experience data directly applicable to the business segment (i.e., direct data) if it is available. In the absence of direct data, the company should then look to use data from a segment that is similar to the business segment (i.e., other than direct experience). See section B) below for

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additional considerations. Finally, if there is no data, the company shall use the applicable table, as required in subsection C) below.

B) Data Other than Direct Experience. If expected mortality curves for a segment are being determined using data from a similar business segment (whether or not directly written by the company), the actuary shall document any similarities or differences between the two business segments (e.g., type of underwriting, marketing channel, average policy size, etc.). The actuary shall also document the data quality of the mortality experience of the similar business. Adjustments shall be applied to the data to reflect differences between the business segments and margins shall be applied to the adjusted expected mortality curves to reflect the data uncertainty associated with using data from a similar but not identical business segment. The actuary shall document the adjustments and the margins applied.

To the extent the mortality of a business segment is reinsured, any mortality charges that are consistent with the company's own pricing and applicable to a substantial portion of the mortality risk may also be a reasonable starting point for the determination of the company's expected mortality curves. The actuary shall document the application of such reinsurance charges and how they were used to set the company's expected mortality curves for the segment.

C) No Data Requirements. When little or no experience or information is available on a business segment, the company shall use expected mortality curves that would produce expected deaths no less than using 100% of the 1994 Variable Annuity MGDB mortality table for a plus segment and expected deaths no greater than 100% of the Annuity 2000 table for a minus segment. If mortality experience on the business segment is expected to be atypical (e.g., demographics of target markets are known to have higher (lower) mortality than typical), these "no data" mortality requirements may not be adequate.

D) Additional Considerations Involving Data. The following considerations shall apply to mortality data specific to the business segment for which assumptions are being determined (i.e., direct data discussed in subsection A) above or other than direct data discussed in subsection B) above).

1) Underreporting of deaths. Mortality data shall be examined for possible underreporting of deaths. Adjustments shall be made to the data if there is any evidence of underreporting. Alternatively, exposure by lives or amounts on contracts for which death benefits were in the money may be used to determine expected mortality curves. Underreporting on such exposures should be minimal; however, this reduced subset of data will have less credibility.

2) Experience by contract duration. Experience of a plus segment shall be examined to determine if mortality by contract duration increases materially due to selection at issue. In the absence of information, the actuary shall assume that expected mortality will increase by contract duration for an appropriate select period. As an alternative, if the actuary determines that mortality is impacted by selection, the actuary could apply margins to the expected mortality in such a way that the actual mortality modeled does not depend on contract duration.

3) Modification and Relevance of data. Even for a large company the quantity of life exposures and deaths are such that a significant amount of smoothing may be required to determine expected mortality curves from mortality experience. Expected mortality curves, when applied to the recent historic exposures (e.g., 3 to 7 years), should not result in an estimate of aggregate number of deaths less (greater) than the actual number deaths during the exposure period for plus (minus) segments. If this condition is not satisfied,

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the actuary must document the rationale in support of using expected mortality that differs from recent mortality experience.

In determining expected mortality curves (and the credibility of the underlying data), older data may no longer be relevant. The "age" of the experience data used to determine expected mortality curves should be documented. There should be commentary in the documentation on the relevance of the data (e.g., any actual and expected changes in markets, products and economic conditions over the historic and projected experience).

4) Other considerations. In determining expected mortality curves, consideration should be given to factors that include, but are not limited to, trends in mortality experience, trends in exposure, volatility in year-to-year A/E mortality ratios, mortality by five relative to mortality by amounts, changes in the mix of business and product features that could lead to mortality selection.

E) Documentation Requirements.

1) All Segments. The documentation should include any material considerations necessary to understand the development of mortality assumptions for the statutory valuation even if such considerations are not explicitly mentioned in this section. The documentation should be explicit when material judgments were required and such judgments had to be made without supporting historic experience.

The documentation shall:

a) Explain the rationale for the grouping of contracts into different segments for the determination of mortality assumptions and characterize the type and quantity of business that constitute each segment.
b) Describe how each segment was determined to be a plus or minus segment.
c) Summarize any mortality studies used to support mortality assumptions, quantify the exposures and corresponding deaths, describe the important characteristics of the exposures and comment on unusual data points or trends.
d) Document the age of the experience data used to determine expected mortality curves and comment on the relevance of the data.
e) Document the mathematics used to adjust mortality based on credibility and summarize the result of applying credibility to the mortality segments.
f) Discuss any assumptions made on mortality improvements, the support for such assumptions and how such assumptions adjusted the modeled mortality.
g) Describe how the expected mortality curves compare to recent historic experience and comment on any differences.
h) Discuss how the mortality assumptions are consistent with the goal of achieving the required CTE level over the joint distribution of all future outcomes, in keeping with Principle #3 and Appendix 9.

If the study was done on a similar business segment, identify the differences in the business segment on which the data were gathered and the business segment on which the data were used to determine mortality assumptions for the statutory valuation. Describe how these differences were reflected in the mortality used in modeling.

If mortality assumptions for the statutory valuation were based in part on reinsurance rates, document how the rates were used to set expected mortality (e.g., assumptions made on loadings in the rates and/or whether the assuming company provided their expected mortality and the rationale for their assumptions).

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2) Plus Segments. For a plus segment, the documentation shall also discuss the examination of the mortality data for the underreporting of deaths and experience by duration, and describe any adjustments that were made as a result of the examination.

3) Minus Segments. For a minus segment the documentation shall also discuss how the mortality deviations on minus segments compare to those on any plus segments. To the extent the overall margin is reduced, the documentation should include support for this assumption.

A10.3) Adjustment for Credibility to Determine Prudent Estimate Mortality

A) Adjustment for Credibility. The expected mortality curves determined in section A10.2) shall be adjusted based on the credibility of the experience used to determine the curves in order to arrive at Prudent Estimate mortality. The adjustment for credibility shall result in blending the expected mortality curves with a mortality table consistent with a statutory valuation mortality table. For a plus segment, the table shall be consistent with 100% of the 1994 Variable Annuity MGDB table (or a more recent mortality table adopted by the NAIC to replace this table). For a minus segment, the table shall be consistent with 100% of the 2000 Annuity table (or a more recent mortality table adopted by the NAIC to replace that table). The approach used to adjust the curves shall suitably account for credibility.[40]

B) Adjustment of Statutory Valuation Mortality for Improvement. For purposes of the adjustment for credibility, the statutory valuation mortality table for a plus segment may be and the statutory valuation mortality table for a minus segment must be adjusted for mortality improvement. Such adjustment shall reflect applicable published industrywide experience from the effective date of the respective statutory valuation mortality table to the experience weighted average date underlying the data used to develop the expected mortality curves (discussed in section A10.2)).

C) Credibility Procedure. The credibility procedure used shall:

1) Produce results that are reasonable in the professional judgment of the actuary,

2) Not tend to bias the results in any material way,

3) Be practical to implement,

4) Give consideration to the need to balance responsiveness and stability,

5) Take into account not only the level of aggregate claims but the shape of the mortality curve, and

6) Contain criteria for full credibility and partial credibility that have a sound statistical basis and be appropriately applied.

Documentation of the credibility procedure used shall include a description of the procedure, the statistical basis for the specific elements of the credibility procedure, and any material changes from prior credibility procedures.

D) Further Adjustment of the Credibility-adjusted Table for Mortality Improvement. The credibility-adjusted table used for plus segments may be and the credibility adjusted date used for minus

[40] For example, when credibility is zero, an appropriate approach should result in a mortality assumption consistent with 100% of the statutory valuation mortality table used in the blending.

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segments must be adjusted for applicable published industrywide experience from the experience weighted average date underlying the company experience used in the credibility process to the valuation date.

Any adjustment for mortality improvement beyond the valuation date is discussed in section A10.4).

A10.4) Future Mortality Improvement

The mortality assumption resulting from the requirements of section A10.3) shall be adjusted for mortality improvements beyond the valuation date if such an adjustment would serve to increase the resulting Conditional Tail Expectation Amount. If such an adjustment would reduce the Conditional Tail Expectation Amount, such assumptions are permitted, but not required. In either case, the assumption must be based on current relevant data with a margin for uncertainty (increasing assumed rates of improvement if that results in a higher reserve, reducing them otherwise).

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APPENDIX 11 - 1994 Variable Annuity MGDB Mortality Table

FEMALE Age Last Birthday

AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$
1	0.519	24	0.344	47	1.371	70	16.957	93	192.270
2	0.358	25	0.346	48	1.488	71	18.597	94	210.032
3	0.268	26	0.352	49	1.619	72	20.599	95	228.712
4	0.218	27	0.364	50	1.772	73	22.888	96	248.306
5	0.201	28	0.382	51	1.952	74	25.453	97	268.892
6	0.188	29	0.403	52	2.153	75	28.272	98	290.564
7	0.172	30	0.428	53	2.360	76	31.725	99	313.211
8	0.158	31	0.455	54	2.589	77	35.705	100	336.569
9	0.154	32	0.484	55	2.871	78	39.635	101	360.379
10	0.159	33	0.514	56	3.241	79	44.161	102	385.051
11	0.169	34	0.547	57	3.713	80	49.227	103	411.515
12	0.185	35	0.585	58	4.270	81	54.980	104	439.065
13	0.209	36	0.628	59	4.909	82	61.410	105	465.584
14	0.239	37	0.679	60	5.636	83	68.384	106	488.958
15	0.271	38	0.739	61	6.469	84	75.973	107	507.867
16	0.298	39	0.805	62	7.396	85	84.432	108	522.924
17	0.315	40	0.874	63	8.453	86	94.012	109	534.964
18	0.326	41	0.943	64	9.611	87	104.874	110	543.622
19	0.333	42	1.007	65	10.837	88	116.968	111	548.526
20	0.337	43	1.064	66	12.094	89	130.161	112	550.000
21	0.340	44	1.121	67	13.318	90	144.357	113	550.000
22	0.343	45	1.186	68	14.469	91	159.461	114	550.000
23	0.344	46	1.269	69	15.631	92	175.424	115	1000.000

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APPENDIX 11 - 1994 Variable Annuity MGDB Mortality Table

MALE Age Last Birthday

AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$
1	0.587	24	0.760	47	2.366	70	29.363	93	243.533
2	0.433	25	0.803	48	2.618	71	32.169	94	264.171
3	0.350	26	0.842	49	2.900	72	35.268	95	285.199
4	0.293	27	0.876	50	3.223	73	38.558	96	305.93[illegible]
5	0.274	28	0.907	51	3.598	74	42.106	97	32[illegible].849
6	0.263	29	0.935	52	4.019	75	46.121	98	34[illegible].977
7	0.248	30	0.959	53	4.472	76	50.813	99	3[illegible].757
8	0.234	31	0.981	54	4.969	77	56.327	100	382.606
9	0.231	32	0.997	55	5.543	78	62.629	101	401.942
10	0.239	33	1.003	56	6.226	79	69.595	102	422.569
11	0.256	34	1.005	57	7.025	80	77.114	103	445.282
12	0.284	35	1.013	58	7.916	81	[illegible].075	104	469.115
13	0.327	36	1.037	59	8.907	82	93.[illegible]73	105	491.923
14	0.380	37	1.082	60	10.029	83	10[illegible].578	106	511.560
15	0.435	38	1.146	61	11.312	[illegible]4	110.252	107	526.441
16	0.486	39	1.225	62	12.781	85	119.764	108	536.732
17	0.526	40	1.317	63	1[illegible].431	8[illegible]	130.583	109	543.602
18	0.558	41	1.424	64	16.2[illegible]1	[illegible]7	143.012	110	547.664
19	0.586	42	1.540	65	18.[illegible]91	88	156.969	111	549.540
20	0.613	43	1.662	[illegible]	20.2[illegible]9	89	172.199	112	550.000
21	0.642	44	1.796	67	[illegible].698	90	188.517	113	550.000
22	0.677	45	1.952	68	24.581	91	205.742	114	550.000
23	0.717	46	2.141	69	26.869	92	223.978	115	1000.000

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APPENDIX 11 - 1994 Variable Annuity MGDB Mortality Table

FEMALE Age Nearest Birthday

AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$
1	0.628	24	0.344	47	1.316	70	16.239	93	184.435
2	0.409	25	0.344	48	1.427	71	17.687	94	201.876
3	0.306	26	0.348	49	1.549	72	19.523	95	220.252
4	0.229	27	0.356	50	1.690	73	21.696	96	239.561
5	0.207	28	0.372	51	1.855	74	24.107	97	259.807
6	0.194	29	0.392	52	2.050	75	26.832	98	281.166
7	0.181	30	0.415	53	2.256	76	29.954	99	303.639
8	0.162	31	0.441	54	2.465	77	33.451	100	326.956
9	0.154	32	0.470	55	2.713	78	37.527	101	350.852
10	0.155	33	0.499	56	3.030	79	41.826	102	375.056
11	0.163	34	0.530	57	3.453	80	46.597	103	401.045
12	0.175	35	0.565	58	3.973	81	51.986	104	428.996
13	0.195	36	0.605	59	4.569	82	58.138	105	456.698
14	0.223	37	0.652	60	5.250	83	64.885	106	481.939
15	0.256	38	0.707	61	6.024	84	72.126	107	502.506
16	0.287	39	0.771	62	6.898	85	80.120	108	518.642
17	0.309	40	0.839	63	7.889	86	89.120	109	531.820
18	0.322	41	0.909	64	9.023	87	99.383	110	541.680
19	0.331	42	0.977	65	10.215	88	110.970	111	547.859
20	0.335	43	1.038	66	11.465	89	123.714	112	550.000
21	0.339	44	1.091	67	12.731	90	137.518	113	550.000
22	0.342	45	1.151	68	13.913	91	152.286	114	550.000
23	0.344	46	1.222	69	15.032	92	167.926	115	1000.000

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APPENDIX 11 - 1994 Variable Annuity MGDB Mortality Table

MALE Age Nearest Birthday

AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$	AGE	$1000q_x$
1	0.701	24	0.738	47	2.246	70	28.068	93	234.658
2	0.473	25	0.782	48	2.486	71	30.696	94	255.130
3	0.393	26	0.824	49	2.751	72	33.688	95	276.308
4	0.306	27	0.860	50	3.050	73	36.904	96	297.48[illegible]
5	0.280	28	0.892	51	3.397	74	40.275	97	317.953
6	0.268	29	0.922	52	3.800	75	44.013	98	33[illegible].425
7	0.257	30	0.948	53	4.239	76	48.326	[illegible]	3[illegible]6.374
8	0.238	31	0.971	54	4.706	77	53.427	100	375.228
9	0.230	32	0.992	55	5.234	78	59.390	101	394.416
10	0.233	33	1.003	56	5.854	79	66.073	102	414.369
11	0.245	34	1.004	57	6.601	80	[illegible]	103	436.572
12	0.267	35	1.006	58	7.451	81	[illegible]1.158	104	460.741
13	0.302	36	1.020	59	8.385	82	[illegible]	105	484.644
14	0.352	37	1.054	60	9.434	83	[illegible]7.593	106	506.047
15	0.408	38	1.111	61	10.629	[illegible]4	105.994	107	522.720
16	0.463	39	1.182	62	12.002	85	115.015	108	534.237
17	0.509	40	1.268	63	[illegible].569	8[illegible]	125.131	109	542.088
18	0.544	41	1.367	64	15.3[illegible]	[illegible]7	136.815	110	546.908
19	0.573	42	1.481	65	17.[illegible]92	88	150.191	111	549.333
20	0.599	43	1.599	[illegible]	19.2[illegible]3	89	164.944	112	550.000
21	0.627	44	1.725	67	[illegible].830	90	180.886	113	550.000
22	0.658	45	1.867	68	23.489	91	197.834	114	550.000
23	0.696	46	2.037	69	25.700	92	215.601	115	1000.000

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Actuarial Guideline XLIV

GROUP TERM LIFE WAIVER OF PREMIUM DISABLED LIFE RESERVES

I. Background

Section 4.G. of the Standard Valuation Law establishes tables approved by the commissioner as the minimum standard for computing reserves for group life insurance and special benefits. The purpose of this Actuarial Guideline (Guideline) is to determine the minimum standard of valuation for group term life waiver of premium disabled life benefits and to recognize the 2005 Group Term Life Waiver (GTLW) Mortality and Recovery Tables.

Group term life policies do not maintain contract reserves beyond the duration of the policy issued to the group policyholder. However, some policies guarantee an extended death benefit to an individual insured who is disabled according to the terms of the policy. Thus, to the extent such guarantees are made, a disabled life reserve must be maintained for each individual that is so disabled. However, prior to the creation of this guideline, there has been no formal guidance regarding the calculation of these disabled life reserves.

II. Scope

This guideline applies to group term life certificates on individuals who become disabled on or after January 1, 2009. Based on the provisions of Section 4.G. of the Standard Valuation Law, companies may apply this to group term life certificates on individuals who became disabled prior to January 1, 2009, provided they obtain permission from the commissioner.

III. Definitions

"2005 GTLW Mortality Tables" means the mortality rate tables shown in Attachments A and B.

"2005 GTLW Recovery Tables" means the recovery rate tables shown in Attachments C and D.

IV. Text

A. Group Waiver of Premium Reserve Calculation

1. The minimum standard of valuation for group term life waiver of premium disabled life benefits shall be the present value of the death benefit payable discounted for interest and recovery. Since there is not a contract reserve based upon an aggregate table, the discounted value of waived premiums is inadequate to support this liability.

2. Except as provided in Section B, the 2005 GTLW Mortality and Recovery Tables shall be used for determining the minimum standard of valuation for any group term life waiver of premium disabled life benefit incurred on or after the effective date of this guideline. The valuation tables were derived from employer-employee group life experience. Other forms of group term life insurance are also subject to the same requirements if they contain similar extended death benefit provisions. Section B offers ways to modify the underlying rates of mortality or recovery if they differ from those associated with the underlying experience in the valuation table.

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3. The maximum interest rate shall be the maximum rate permitted by law in the valuation of life insurance of the same guaranteed duration issued on the same date as the claim incurral date of disability. This maximum interest rate shall be used for determining the minimum standard of valuation for any group term life waiver of premium disabled life benefit incurred on or after the effective date of this guideline. The guaranteed duration used to determine the life insurance rate of interest is equal to the largest term in years between the point at which any individual in the group may become disabled and the point at which no death benefit is available. Thus, if a person could become disabled at age 20, and remain disabled, and receive a benefit upon death before age 65, the guaranteed duration would be 45 years. For most groups and companies this would mean the maximum interest rate shall be the rate for life insurance with duration greater than 20 years.

B. Use of Company Experience

1. The Appointed Actuary shall review company experience at least once every five years. The review of company experience can range from a detailed experience study to a high level analysis. The extent of the review must be sufficient to enable the Appointed Actuary to defend any conclusion reached. Company experience shall:

i. Be segmented into policies with similar benefits, on individuals of each gender;

ii. Be experience-specific to the company;

iii. Include all relevant experience in the past three most recent years;

iv. Exclude experience that is not in the past six most recent years;

v. Otherwise be relevant, in accordance with the professional judgment of the Appointed Actuary; and

vi. Not be deemed irrelevant by the commissioner.

2. The commissioner may require a company to use its experience based upon the most recent review referenced in Section B.1 to establish its specific valuation tables if:

i. Actual mortality experience is reasonably expected to be greater than 90% of the 2005 GTLW Mortality Tables; or

ii. Actual recovery experience is reasonably expected to be less than 125% of the 2005 GTLW Recovery Tables.

Under these circumstances, the commissioner may require a company to use the process set out in Section B.4 and establish for the company a minimum value for Z.

3. A company may use its experience exclusively without reference to the standard tabular mortality expected experience or to the standard tabular recovery expected experience to create its specific valuation tables if:

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i. The Appointed Actuary can demonstrate and certify the following:

a) The company-specific valuation tables are based on company experience with allowances for graduation and margins for adverse experience;

b) The company-specific mortality valuation tables used for computing minimum reserves for group term life waiver of premium benefits are such that there is at least an 85% statistical confidence that the actual annual aggregate mortality will be less than the mortality in the company-specific mortality valuation tables; and

c) The company-specific recovery valuation tables used for computing minimum reserves for group term life waiver of premium benefits are such that there is at least an 85% statistical confidence that the actual annual aggregate recoveries will be greater than the recoveries in the company-specific recovery valuation tables.

ii. The company has written permission from the domiciliary commissioner to use the company-specific valuation tables.

iii. Unless otherwise exempted or required, the specific valuation tables shall apply to the computation of minimum reserves for group term life waiver of premium disabled life benefits for claims incurred during or after the calendar year in which the study was performed.

iv. The company shall not use mortality and recovery tables with rates that produce reserves less than the reserves produced by using 75% of the 2005 GTLW Mortality Tables and 160% of the 2005 GTLW Recovery Tables for all durations of disability combined.

4. If not invoking Section B.3, a company may use a credibility-weighted combination of company mortality experience with the 2005 GTLW Mortality Tables and/or of company recovery experience with the 2005 GTLW Recovery Tables to create its specific valuation tables.

i. The blended tables for each gender and type of experience (mortality and recovery) shall be computed using the formula Blended Table = T x S, where:

a) Z shall be a credibility weighting factor, between 0 and 1, developed by the Appointed Actuary using credibility theory methods not unacceptable to the commissioner;

b) F shall be the ratio of the company's actual experience to the expected experience for the 2005 GTLW Mortality and Recovery Tables for each gender and type of experience (mortality and recovery);

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c) M shall be 1.12 for mortality tables and 0.80 for recovery tables. The values provide a smooth transition between the 2005 tables and company experience when Z = 1;

d) S shall be the 2005 GTLW Mortality and Recovery Tables; and

e) T shall be computed using the following steps:

Step 1: Compute the raw value of T = [Z x (F x M) + (1 – Z)].

Step 2: Round T to the nearest 5%.

Step 3: If the absolute difference between the T produced in step 2 and the value of T utilized immediately prior to the study is less than 10%, then set T equal to the value of T utilized immediately prior to the study.

Step 4: For all durations of disability combined for each gender, set the value of T to the greater of 75% and the T resulting from step 3 for mortality and set the value of T to the lesser of 160% and the T resulting from step 3 for recovery.

ii. The company has written permission from the domiciliary commissioner to use the blended valuation tables.

iii. Unless otherwise exempted or required, the specific valuation tables shall apply to the computation of minimum reserves for group term life waiver of premium disabled life benefits for claims incurred during or after the calendar year in which the study was performed.

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ATTACHMENT A
2005 GTLW Mortality and Recovery Tables
Graduated Death Rates (1,000Q[X])
Select Period (duration 9 months to 10 years)

MALES

PROBABILITY OF DEATH (1,000Q[X]+T) - SELECT PERIOD

Central Age => Duration of Disability	17	22	27	32	37	42	47	52	57	62	67	72
1 (4th qtr.)	21.3	25.0	25.0	28.8	35.0	35.0	35.0	37.5	[illegible]	[illegible]	42.5	38.8
2 (1st qtr.)	26.3	28.8	30.0	36.3	37.5	37.5	37.5	37.5	[illegible]	37.5	33.8	30.0
2 (2nd qtr.)	27.5	30.0	30.0	37.5	35.0	35.0	33.8	33.8	[illegible]	33.8	32.5	28.8
2 (3rd qtr.)	31.3	33.8	33.8	33.8	26.3	26.3	27.5	[illegible]	28.8	28.8	28.8	25.0
2 (4th qtr.)	33.8	38.8	37.5	32.5	22.5	22.5	22.5	[illegible]	[illegible]	21.3	21.3	21.3
2 (annual)	107.2	117.9	119.2	128.2	112.6	113.6	114.0	[illegible]	[illegible]	115.2	110.7	100.5
3	37.5	56.3	68.8	70.0	71.3	72.5	73.8	[illegible]	81.3	83.8	86.3	91.3
4	22.5	32.5	60.0	60.0	61.3	62.5	62.5	62.5	68.8	71.3	73.8	77.5
5	15.0	22.5	41.3	48.8	50.0	51.3	52.5	52.5	56.3	58.8	65.0	68.8
6	15.0	22.5	37.5	41.3	42.5	43.8	45.0	46.3	52.5	53.8	68.8	76.3
7	15.0	22.5	27.5	31.3	32.5	[illegible]	35.0	37.5	48.8	52.5	71.3	78.8
8	15.0	22.5	25.0	28.8	31.3	32.5	[illegible]	36.3	55.0	57.5	77.5	85.0
9	15.0	22.5	22.5	23.8	28.8	[illegible]	33.8	40.0	56.3	60.0	81.3	93.8
10	15.0	22.5	18.8	21.3	23.8	[illegible]	[illegible]	42.5	56.3	62.5	87.5	101.3

FEMALES

PROBABILITY OF DEATH (1,000Q[X]+T) - SELECT PERIOD

Central Age => Duration of Disability	17	22	27	32	37	42	47	52	57	62	67	72
1 (4th qtr.)	12.5	15.0	20.0	[illegible]	22.5	26.3	31.3	33.8	36.3	40.0	37.5	35.0
2 (1st qtr.)	11.3	13.8	[illegible]	20.0	20.0	23.8	30.0	32.5	33.8	36.3	32.5	28.8
2 (2nd qtr.)	11.3	13.8	[illegible]	20.0	20.0	21.3	28.8	31.3	31.3	32.5	31.3	27.5
2 (3rd qtr.)	10.0	12.5	[illegible]	18.8	18.8	21.3	25.0	26.3	27.5	27.5	27.5	23.8
2 (4th qtr.)	10.0	[illegible]	[illegible]	16.3	16.3	17.5	20.0	21.3	20.0	20.0	20.0	20.0
2 (annual)	39.4	[illegible]	[illegible]	70.0	70.3	78.9	97.8	104.8	106.4	110.3	105.8	95.7
3	18.8	[illegible]	[illegible]	37.5	40.0	43.8	52.5	65.0	66.3	67.5	76.3	80.0
4	15.0	[illegible]	25.0	26.3	28.8	31.3	40.0	48.8	55.0	56.3	63.8	67.5
5	10.0	[illegible]	23.8	25.0	26.3	28.8	31.3	37.5	45.0	51.3	56.3	58.8
6	[illegible]	16.3	17.5	17.5	20.0	23.8	30.0	35.0	45.0	48.8	60.0	62.5
7	[illegible]	13.8	15.0	16.3	17.5	23.8	30.0	35.0	43.8	50.0	63.8	66.3
8	[illegible]	13.8	15.0	16.3	17.5	22.5	28.8	33.8	43.8	51.3	68.8	71.3
9	[illegible]	12.5	15.0	16.3	17.5	20.0	28.8	33.8	41.3	52.5	73.8	77.5
10	[illegible]	11.3	13.8	15.0	17.5	20.0	28.8	33.8	40.0	52.5	78.8	83.8

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ATTACHMENT B
2005 GTLW Mortality and Recovery Tables
Graduated Death Rates (1,000Q[X])
Ultimate Period (11+ years)

Attained Age	Male	Female
27	12.5	10.0
28	12.5	10.0
29	12.5	10.0
30	13.8	11.3
31	13.8	11.3
32	13.8	11.3
33	13.8	11.3
34	13.8	11.3
35	15.0	12.5
36	15.0	12.5
37	15.0	12.5
38	15.0	12.5
39	16.3	13.8
40	17.5	13.8
41	18.8	15.0
42	18.8	15.0
43	18.8	15.0
44	20.0	16.3
45	20.0	17.5
46	21.3	17.5
47	21.3	18.8
48	22.5	18.8
49	23.8	18.8
50	25.0	20.0
51	26.3	[illegible]
52	27.5	[illegible]0.0
53	30.0	[illegible]
54	31.3	[illegible]3.8
55	[illegible]	25.0
56	[illegible]	27.5
57	[illegible]3	28.8
58	38.[illegible]	30.0
59	41.[illegible]	31.3
60	42.5	31.3
61	43.8	32.5
62	46.3	33.8
63	48.8	35.0
64	50.0	3[illegible]
65	52.5	[illegible].8
66	55.0	40.[illegible]
67	56.3	40.[illegible]
68	[illegible].8	42.5
69	60.[illegible]	45.0
70	[illegible].8	47.5
71	65.[illegible]	50.0
72	66.[illegible]	52.5
73	72.5	57.5
74	77.5	62.5
75	82.5	67.5
76	87.5	73.8
77	92.5	78.8
78	95.0	80.0
79	98.8	81.3
80	100.0	82.5
81	103.8	83.8
82	107.5	83.8
83	113.8	88.8
84	121.3	93.8
85	128.8	98.8
86	136.3	105.0
87	143.8	111.3
88	152.5	117.5
89	161.3	123.8
90	171.3	131.3
91	182.5	140.0
92	195.0	150.0
93	210.0	161.3
94	227.5	175.0
95	248.8	191.3
96	280.0	215.0
97	335.0	257.5
98	448.8	345.0
99	1000.0	1000.0

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ATTACHMENT C
2005 GTLW Mortality and Recovery Tables
Graduated Recovery Rates (1,000Q[X])
Select Period (duration 9 months to 10 years)

MALES

PROBABILITY OF RECOVERY (1,000Q[X]+T) - SELECT PERIOD

Central Age => Duration of Disability	17	22	27	32	37	42	47	52	57	62	67	72
1 (4th qtr.)	39.7	39.7	32.5	26.7	25.4	19.5	15.0	9.8	7.[illegible]	[illegible]	3.9	3.3
2 (1st qtr.)	37.7	37.7	31.2	26.0	23.4	16.3	13.7	8.5	7.2	5.2	4.6	3.3
2 (2nd qtr.)	34.5	34.5	28.0	22.8	22.1	15.6	12.4	7.[illegible]	[illegible]5	[illegible]	4.6	3.9	3.3
2 (3rd qtr.)	31.9	31.9	26.0	21.5	20.8	15.0	9.8	7.2	5.[illegible]	[illegible]	3.9	3.3	2.6
2 (4th qtr.)	28.0	28.0	23.4	19.5	18.9	14.3	8.5	[illegible]	[illegible]6	[illegible]	3.3	2.6	2.0
2 (annual)	120.9	120.5	99.9	82.5	78.5	56.8	41.6	28.2	22.[illegible]	16.0	13.6	10.6
3	111.2	111.2	90.4	73.5	54.0	46.2	37.7	[illegible]	[illegible].0	10.4	7.8	7.2
4	100.1	100.1	75.4	56.6	43.6	35.8	26.0	17.[illegible]	11.1	9.1	5.9	5.2
5	81.3	81.3	59.8	43.6	36.4	29.3	17.6	13.7	8.5	7.2	5.2	4.6
6	49.4	49.4	42.3	35.8	31.2	24.1	[illegible]	[illegible]	6.5	6.5	4.6	3.9
7	39.0	39.0	35.1	31.2	28.0	20.8	11.1	7.8	5.2	5.2	3.3	2.6
8	34.5	34.5	31.2	28.0	23.4	[illegible].3	[illegible].4	6.5	5.2	3.9	2.0	1.3
9	28.0	28.0	26.7	24.7	20.2	13.[illegible]	[illegible]	5.2	4.6	3.3	1.3	0.7
10	24.7	24.7	22.8	20.8	15.0	[illegible].1	[illegible].5	4.6	3.9	2.6	1.3	0.0

FEMALES

PROBABILITY OF RECOVERY (1,000Q[X]+T) - SELECT PERIOD

Central Age => Duration of Disability	17	22	27	32	[illegible]	42	47	52	57	62	67	72
1 (4th qtr.)	61.1	61.1	50.1	[illegible].0	28.6	24.7	16.9	16.3	13.0	8.5	6.5	5.2
2 (1st qtr.)	46.2	46.2	38.4	31.[illegible]	26.7	22.1	16.3	15.0	11.7	8.5	7.2	5.9
2 (2nd qtr.)	38.4	38.4	[illegible]1.2	25.4	24.7	19.5	14.3	13.7	9.8	7.2	5.9	4.6
2 (3rd qtr.)	34.5	34.5	[illegible].6	23.4	22.8	16.9	11.7	11.1	7.8	5.9	4.6	3.9
2 (4th qtr.)	29.9	29.9	24.[illegible]	20.8	20.2	15.0	9.1	8.5	5.9	3.9	3.3	2.6
2 (annual)	138.8	138.[illegible]	11[illegible].7	95.1	88.5	69.3	48.6	45.4	33.3	24.1	19.9	16.2
3	129.4	129.[illegible]	10[illegible].3	85.8	70.2	59.2	42.3	31.9	20.2	14.3	11.1	9.8
4	125.5	125.5	[illegible]4.3	70.9	55.3	44.2	29.3	22.8	13.7	11.7	7.2	5.9
5	106.6	10[illegible].6	78.0	57.2	43.6	34.5	21.5	15.0	11.7	10.4	7.8	6.5
6	65.7	65.[illegible]	55.9	47.5	35.8	26.7	17.6	11.1	9.8	9.8	6.5	5.2
7	[illegible].8	48.8	43.6	39.0	30.6	22.1	16.3	9.1	7.8	7.8	5.2	3.9
8	40.[illegible]	40.3	36.4	32.5	26.0	18.2	15.0	8.5	7.2	5.9	3.3	2.0
9	[illegible].9	31.9	29.9	28.0	22.8	15.6	12.4	7.2	5.9	4.6	2.0	0.7
10	27.[illegible]	27.3	24.7	22.8	18.9	11.7	7.2	5.2	5.2	3.3	2.0	0.0

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ATTACHMENT D
2005 GTLW Mortality and Recovery Tables
Graduated Recovery Rates (1,000Q[X])
Ultimate Period (11+ years)

Attained Age	Male	Female	Attained Age	Male	Female
27	16.3	16.3	64	3.3	[illegible]
28	16.3	16.3	65	3.3	4.6
29	16.3	16.3	66	3.3	4.[illegible]
30	16.3	16.3	67	3.3	4.[illegible]
31	16.3	16.3	68	2.6	3.9
32	16.3	16.3	69	2.[illegible]	2.6
33	16.3	16.9	70	2.0	2.0
34	16.3	17.6	71	1.[illegible]	1.3
35	16.3	18.9	72	0.[illegible]	0.7
36	16.3	20.2	73	0.7	0.7
37	16.3	21.5	74	0.7	0.7
38	15.6	20.8	[illegible]	0.7	0.7
39	15.0	20.2	76	0.7	0.7
40	15.0	19.5	77	0.7	0.7
41	14.3	18.2	78	0.7	0.7
42	14.3	17.6	79	0.7	0.7
43	13.7	17.6	80	0.0	0.0
44	13.0	17.6	81	0.0	0.0
45	12.4	16.9	82	0.0	0.0
46	11.7	16.9	83	0.0	0.0
47	11.1	16.9	84	0.0	0.0
48	11.1	15.6	85	0.0	0.0
49	11.1	14.3	86	0.0	0.0
50	10.4	13.0	87	0.0	0.0
51	10.4	11.7	88	0.0	0.0
52	10.4	11.1	89	0.0	0.0
53	9.8	10.4	90	0.0	0.0
54	9.1	9.8	91	0.0	0.0
55	7.8	9.1	92	0.0	0.0
56	7.[illegible]	7.8	93	0.0	0.0
57	6.5	7.2	94	0.0	0.0
58	5.[illegible]	6.5	95	0.0	0.0
59	5.[illegible]	6.5	96	0.0	0.0
60	4.6	5.9	97	0.0	0.0
61	3.9	5.9	98	0.0	0.0
62	3.3	5.2	99	0.0	0.0
63	3.3	5.2			

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Actuarial Guideline XLV

THE APPLICATION OF THE STANDARD NONFORFEITURE LAW FOR LIFE INSURANCE TO CERTAIN POLICIES HAVING INTERMEDIATE CASH BENEFITS

Scope

This Guideline applies to individual life insurance policies, other than variable and non-variable adjustable life policies and current assumption whole life policies, that provide for an endowment benefit, materially less than the policy face amount, at a specified intermediate duration during a longer period of life insurance protection. The payment of such endowment benefit does not alter or eliminate any premiums or benefits scheduled for the period subsequent to the endowment date, nor does the policy automatically terminate upon payment of the endowment benefit. Policies that offer a return of premium endowment benefit may be considered a special case of the policies subject to this Guideline.

Background

In recent years a new category of life insurance products has emerged in the life insurance marketplace. These products offer a cash benefit at a specified time, typically many years prior to the coverage expiry date of the policy, conditioned on the insured being alive and the policy being in force at that time. The cash benefit has often taken the form of an intermediate period endowment that is either built into the policy or is provided through a rider or an endorsement. When the amount of the cash benefit is based upon the premiums paid into the policy, the benefit is often referred to as a return of premium benefit.

The straightforward application of Sections 3 and 5 of the Standard Nonforfeiture Law For Life Insurance (the Law), considering guaranteed benefits and premiums (whether guaranteed or indeterminate) during the entire period death benefits are guaranteed available under the policy, subject only to the payment of required premiums, can result in negative or very low cash values at all durations for these products. This is caused by high premiums assumed applicable in the later durations. This application of the Law produces unacceptable results, as it fails to recognize that the cash benefit should be prefunded with the premiums that fall due prior to the time the benefit becomes available.

The intent of this Guideline is to provide guidance with respect to the required minimum cash values for some of the products described in the Scope section. However, other products within the scope designed to provide similar benefits, and having similar premium structures (for example products having a cash value at the end of an initial level premium period equal to the total premiums paid) would be expected to provide minimum cash values that are determined in a manner consistent with this Guideline. For products with multiple endowment benefits, the minimum cash values should be determined in accordance with the principles of this Guideline.

Text

A. The following methodology shall be used in the determination of minimum cash surrender values for policies subject to this Guideline in accordance with the requirements of the Law.

1. The endowment period shall be that period of time measured from the issue date of the policy to the date when the endowment benefit becomes payable (the endowment date) under the terms of the policy.

2. If the endowment benefit is added by rider to a policy, then for minimum cash value determination purposes the base policy and the endowment benefit are to be treated as integrated.

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3. Premiums under the policy may be provided through a scale of guaranteed rates for the term of the policy or through a scale of current rates that are subject to a scale of guaranteed maximum premiums; if rates are subject to a scale of guaranteed maximum premiums, the minimum cash values shall be the greater of those produced under this Guideline using the guaranteed maximum rates and current rate scale applicable at issue of the policy.

4. Any cash surrender value available under the policy in the event of default in a premium payment due on any policy anniversary during the endowment period shall be an amount not less than the excess, if any, of the present value, on the anniversary, of the endowment benefit and any future incremental death benefits during the endowment period which would have been provided for by the policy if there had been no default, over the sum of:

   (i) The then present value of the adjusted premiums as defined below corresponding to premiums which would have fallen due on and after the anniversary during the endowment period; and

   (ii) The amount of any indebtedness to the company on the policy.

5. Incremental death benefits are death benefits during the endowment period in excess of the lowest death benefit provided under the policy during the endowment period.

6. The adjusted premiums for the policy shall be calculated on an annual basis and shall be such uniform percentage of the respective premiums specified in the policy for each policy year during the endowment period, excluding amounts payable as extra premiums to cover impairments or special hazards and also excluding any uniform annual contract charge or policy fee specified in the policy in a statement of the method to be used in calculating the cash surrender value and paid-up nonforfeiture benefits, that the present value, at the date of issue of the policy, of all adjusted premiums shall be equal to the sum of:

   (i) The present value of the endowment benefit and any incremental death benefits provided for by the policy during the endowment period;

   (ii) One percent (1%) of the average amount of insurance (total death benefit under the policy, including any incremental death benefits) at the beginning of each of the first ten policy years; and

   (iii) One hundred twenty-five percent (125%) of the nonforfeiture net level premium as defined below, provided however, that no nonforfeiture net level premium shall be considered to exceed 4% of the average amount of insurance (total death benefit under the policy, including any incremental death benefits) at the beginning of each of the first ten policy years.

7. The nonforfeiture net level premium for the policy shall be equal to the present value, at the date of issue of the policy, of the endowment benefit and any incremental death benefits provided for by the policy during the endowment period, divided by the present value, at the date of issue of the policy, of an annuity of one per annum payable on the date of issue of the policy and on each anniversary of such policy on which a premium falls due prior to the endowment date.

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8. The mortality rates and interest rate used in the determination of the minimum cash values for the policy shall be those applicable under the Law considering during the entire period death benefits are guaranteed available under the policy, subject only to the payment of required premiums.

B. In no event can the cash surrender value under the policy at any duration be less than the greater of:

1. The minimum cash value calculated according to Section A of this Guideline; and

2. The minimum cash value at the same duration resulting from the application of the methods described in Sections 3 and 5c of the Law considering guaranteed benefits and premiums (whether guaranteed or indeterminate) during the entire period death benefits are guaranteed available under the policy, subject only to the payment of required premiums. In performing this calculation, no annual premium at any duration after the endowment period shall exceed the difference between the death benefit and the cash value at that duration.

C. The cash surrender values for the policy must also satisfy the consistency of progression of cash values test contained in Section 8 of the Law, considering guaranteed benefits and premiums (whether guaranteed or indeterminate) during the entire period death benefits are guaranteed available under the policy, subject only to the payment of required premiums.

D. For policies where the benefit is defined in more general terms as providing for a return of premiums paid or a portion of premiums paid, the procedures of Subsection 5c C of the Law and the requirements of Section A above shall be applied in the determination of a revised set of minimum cash values in the event the value of the endowment benefit of the policy changes due to a change made to the premium schedule provided at issue.

Applicability

This Guideline is effective for all policy forms filed on or after January 1, 2009, and affects all contracts issued on or after January 1, 2010.

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Actuarial Guideline XLVI

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

I. Background

Some states have revised their regulation permitting the use of the 2001 CSO Preferred Class Structure Mortality Table so that at the company's option it might be used to value a policy of a plan which was previously approved for issue based on valuation using the 2001 CSO Mortality Table. A company making this election would be changing the valuation mortality rates. It is also the case that use of the 2001 CSO Preferred Class Structure Mortality Table is predicated upon the block of policies initially, and annually thereafter, satisfying certain requirements with respect to the present value of death benefits over certain future periods. If these requirements are not satisfied at some point in the future, the company must change to a table for which the requirements are satisfied. For example, this could mean changing from the super preferred nonsmoker table to the preferred nonsmoker table or maybe from the preferred smoker table to the smoker table. Although a non-elective change, this is also a change in the valuation mortality rates.

Section 4B of the Valuation of Life Insurance Policies Model Regulation defines the "Contract Segmentation Method" in which segments are to be calculated using the valuation mortality rates for deficiency reserves. Thus, potentially either of the two examples given above could trigger a recalculation of the valuation segments at the time the valuation mortality rates are changed. The purpose of this guideline is to prescribe which circumstances involving a change to the valuation mortality rates, require a recalculation of the segments and which do not.

The Valuation of Life Insurance Policies Model Regulation was adopted, in part, to stop the use of high net premiums late in the policy's life from unduly influencing the level of reserves early in the policy's life ("postfunding"). The contract segmentation method was the answer devised to control this. After the adoption of this regulation, companies incorporated the establishment of the segment lengths into the policy design process based on the valuation mortality expected to be used. Now it is seen that there are circumstances in which it may be necessary or desirable to change valuation mortality after issue. But if it triggers a segment recalculation then there could be unintended, undesirable results.

This guideline classifies the circumstances involved in changes to valuation mortality rates into two categories: those where deliberately designed postfunding is less likely so no segment recalculation is prescribed, and those where such postfunding is more possible so segment recalculation is required. In general, non-elective valuation mortality changes require no segment recalculation, while elective valuation mortality changes are divided into those on plans filed for approval before the adoption of this guideline and those filed after adoption. To preclude enhancing postfunding by changing valuation mortality after a plan is approved, recalculation of segments is required if the change is elected on plans filed after adoption of this guideline, but is not required for plans filed before.

II. Scope

This guideline is effective December 31, 2008.

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III. Text

A. For policies subject to a non-elective change in valuation mortality rates:

For policies which were the subject of a non-elective change in valuation mortality rates because the requirements for continued use of the prior rates were no longer satisfied, Section 4B of the Valuation of Life Insurance Policies Model Regulation shall be interpreted so that the segments need not be recalculated.

B. For policies subject to a company election to substitute the 2001 Preferred Class Structure Table for the 2001 CSO Mortality Table:

1. For policies issued on a policy form filed for approval prior to January 1, 2009, Section 4B of the Valuation of Life Insurance Policies Model Regulation shall be interpreted so that the segments need not be recalculated.

2. For policies issued on a policy form filed for approval after January 1, 2009, Section 4B of the Valuation of Life Insurance Policies Model Regulation shall be interpreted to require that the segments be recalculated using the new valuation mortality rates.

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Actuarial Guideline XLVII

THE APPLICATION OF COMPANY EXPERIENCE IN THE CALCULATION OF CLAIM RESERVES UNDER THE 2012 GROUP LONG-TERM DISABILITY VALUATION TABLE

I. Background

The 2012 Group Long-Term Disability (GLTD) Valuation Table, as included in the *Health Insurance Reserves Model Regulation* (#10), is the valuation standard to replace the Commissioner's Group Disability Table 1987 (CGDT87 Table) with a new one based on the GLTD 2008 Table. This table is referred to as the GLTD 2012 Valuation Table and can be found at the following location:

http://www.naic.org/documents/01_naic_2012_group_long-term_disability_valuation_table.xls

An actuarial guideline is more appropriate to handle the multiple segments of the 2012 GLTD Valuation Table, the computations of own experience and the application of credibility which are not normally found in model regulations.

II. Purpose

The purpose of this Actuarial Guideline is to provide an instruction for the use of the 2012 GLTD Valuation Table that is referenced in the *Health Insurance Reserves Model Regulation* (#10). This guideline pertains to Group Long-Term Disability claims consistent with the conditions defined in the model regulation, and governs the selection of claim termination rates for the purpose of calculating GLTD claim reserves. This guideline does not address reserve adequacy, which remains the concern of the insurer according to the terms expressed in the model regulation.

Although the various detailed formulas in this guideline do not directly address or define reserve adequacy, it is assumed that appropriate adequacy tests will be made periodically. Such adequacy testing is considered to be an additional tool for the actuary to make appropriate choices where leeway from any prescription made herein is allowed (A/E calculation, margin, etc.) so that the calculation of the reserve will generally be adequate and the actuary does not need to continually rely on other measures to achieve adequacy. In addition to the few times that leeway from prescription is mentioned below, nothing in this guideline should be assumed to prohibit the actuary from building a case and requesting permission from the state insurance commissioner for other appropriate variations. Many such situations, because they would apply to fully credible blocks of business and are intended for continual use, should be considered for approval by the commissioner for a period tied to the updates required by Section C.vi and not approved on an annual basis.

III. Text

A. When the insurer follows the instructions provided in this guideline, the selected claim termination rates automatically meet the minimum valuation standard defined in the model regulation.

1. Valuation Table Modifications

If not invoking the small company exception specified in Section D, a company must use a credibility-weighted combination of its own claim termination experience with the 2012 GLTD Valuation Table to create its specific valuation table.

i. For claims in Duration Group 1 (duration ≤ 3 months), termination rates may be developed as below consistent with other Duration Groups or in any other

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manner deemed appropriate by the actuary. With respect to credibility, any value between 0 and 1.0 that the actuary deems appropriate for the block may be used.

ii. For claims beyond 3 months, the valuation termination rates shall be computed using the termination rates from the 2012 GLTD Valuation Table (S) multiplied by experience adjustment factors (T) that are calculated separately for four different duration groups.

Valuation Termination Rate = $T \times S$

The duration groups are defined as follows:
Group 2: duration > 3 months and duration ≤ 24 months
Group 3 duration > 24 months and duration ≤ 60 months
Group 4: duration > 60 months and duration ≤ 120 months
Group 5: duration > 120 months

a) S shall be the sum of recovery and death rates from the 2012 GLTD Valuation Table.

b) T shall be computed as $T = [Z \times F * (1 - M) + (1 - Z)]$.

1) Z shall be a credibility weighting factor, between 0 and 1, developed for each duration group according to the following specifications:

Groups 2–5: $Z = Min\left(\sqrt{N/K}, 1\right)$ N is the number of expected recovery and death counts from the 2012 GLTD Valuation Table.

2) K is a set of constants defined by duration group as follows:
Group 2: K = 3,300 Group 4: K = 2,100
Group 3: K = 2,500 Group 5: K = 1,700

3) F shall be the ratio of the company's actual total of recovery and death counts to the expected recovery and death counts for the 2012 GLTD Valuation Table for each duration group specified above.

If the actuary has reserve adequacy or other significant analysis that demonstrates in the development and use of Company Specific Experience (see Section C below) that an alternative measurement is deemed appropriate, such as:

I. Use of some other weighting of claims (gross benefit, net benefit, etc.) that is not only appropriate for measuring A/E, but also is expected to generally produce reserves not less than those produced by using a claim count measurement.

II. Use of an increased credibility factor Z if F is less than 1 to give the company experience more weight.

Then, a basis other than claim count may be used.

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4) M is the company experience margin, determined for each duration group according to the following formula:

$$M = Min\left(15\%, Max\left(5\%, 3\% + 1.65 * \sqrt{A/C}\right)\right)$$

This is the minimum value for the definition of M prior to any reserve adequacy analysis. Adequacy tests and analysis of experience (sharpness of fluctuations, trends over the period of the termination rate study, changing claims practices, etc.) may indicate that a larger value of M may be more appropriate. If so, such a value is deemed appropriate.

5) A is a set of constants defined by duration group as follows:
Group 2: $A = 4.0$ Group 4: $A = 2.5$
Group 3: $A = 3.0$ Group 5: $A = 2.0$

6) C shall be the company's actual number of total recovery and death counts by duration group.

iii. The company shall not use termination rates that produce total reserves for claims disabled for more than two years that are less than the reserves produced for these claims by computing T as $\underline{T} = 1.30$. If the Company Specific Experience, determined in Section C below, for Duration Group 3 includes at least 5,000 claim terminations, the value of T for that Duration Group shall not be limited to ≤ 1.30

C. Company Specific Experience—Own Experience Measurement
In computing values F and S to comply with Section B above, the appointed actuary shall:

i. Segment the company claim termination experience into any major subgroups that may produce significantly different results (e.g., market niches, claims operations, unique benefit designs, etc.).

ii. Combine affiliated statutory entities and assumed reinsurance, where claim management is under a common structure, when considering company experience. It is also appropriate to evaluate experience separately when specific blocks of company business have distinct claim management practices or significantly different risk characteristics.

iii. Include all relevant experience the company is capable of providing for as many of the last five years as possible (not including the lag period described below). However, there are two situations where using other than a five-year period may be more appropriate. The first is when a company's experience in a longer period not only increases credibility but is still relevant and appropriate for the company's products and claim management practices. The second is for a company that has had significant changes in product and/or claim management practices within the past five years that has diminished the relevance of the company's experience early in the five-year period. In this second situation, less than five years of experience may be used for any duration band for which there is compelling logic and when either the company's experience to be used is at

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least 90% credible, or the shorter experience period produces higher reserves than using five years.

iv. Recognize a suitable lag period to allow for a full resolution of claim status. The lag period used in the 2008 GLTD Study was 12 months. However, the appointed actuary may use a different lag period based on his or her company experience. For example, company experience indicates that all changes after the selected lag period are negligible.

v. Measure actual (A) to expected (E) terminations based on claim count (unless another weighting is deemed more appropriate, as mentioned in Section B(ii)(b)4), where the E is based on monthly expected recoveries and deaths from the 2012 GLTD Valuation Table. Claim count is also used in the measurement of credibility.

vi. Update the minimum valuation basis in accordance with Section B above at least once every five years. In addition, the valuation basis also must be updated whenever the company's annual own experience study produces, in accordance with Section B, a value *T* that changes by more than 10% from the one used in the current valuation basis for any of the five duration groups.

vii. Recognize where appropriate any flexibility built into the 2012 GLTD Valuation Table, such as not utilizing diagnosis specific termination rates when the information is deemed unreliable.

viii. Do not count as terminations those claims that are closed due to settlement (i.e., a lump sum replacing a series of potential future payments), or that have reached the end of the maximum benefit duration, or that are closed due to a contractual limit, such as a mental and nervous limit. For this purpose, a closure due to a change in definition of disability should be considered an actual termination and not a termination due to reaching the maximum benefit duration.

ix. Use experience that is otherwise relevant in accordance with the professional judgment of the appointed actuary.

x. Do not use experience that the commissioner has deemed inappropriate or likely to produce significantly inadequate reserves.

In the above paragraphs, the expression term "company" refers to a single company or a group of affiliated companies subject to the same claim management.

D. Own Experience Measurement Exemption

If, at the time of valuation, a company has fewer than 50 open claims disabled within two years of the effective date of the valuation, and fewer than 200 open claims disabled more than two years prior to the effective date of the valuation, the carrier is exempt from the requirement that the 2012 GLTD Valuation Table be modified by the company's own experience. Open claims include only claims subject to valuation using the 2012 GLTD Valuation Table. Said company will use 100% of the 2012 Valuation Table for calculating claims termination rates in order to comply with the minimum valuation standard.

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Actuarial Guideline XLVIII
(Applies to 2017 and Subsequent Year Valuations)

ACTUARIAL OPINION AND MEMORANDUM REQUIREMENTS FOR THE REINSURANCE OF POLICIES REQUIRED TO BE VALUED UNDER SECTIONS 6 AND 7 OF THE NAIC VALUATION OF LIFE INSURANCE POLICIES MODEL REGULATION (MODEL #830)

Background

The NAIC Principle-Based Reserving Implementation (EX) Task Force ("PBRI Task Force") serves as the coordinating body for all NAIC technical groups involved with projects related to the Principle-Based Reserves (PBR) initiative for life and health policies. The PBRI Task Force was also charged with further assessing, and making recommendations regarding, the solvency implications of life insurance reserve financing mechanisms addressed in the June 6, 2013 NAIC White Paper of the Captives and Special Purpose Vehicle Use (E) Subgroup of the Financial Condition (E) Committee. Some of these reinsurance arrangements have been referred to as "XXX/AXXX Captive arrangements," although not all such arrangements actually involve reinsurers organized as captives. In this connotation, XXX denotes the reserves prescribed by Section 6 of the NAIC *Valuation of Life Insurance Policies Model Regulation* (Model #830) while AXXX denotes the reserves prescribed by Section 7 of Model #830, and by *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38). On June 30, 2014, the PBRI Task Force adopted a framework as found in Exhibits 1 and 2 of the June 4, 2014 report from Rector & Associates, Inc. (the "June 2014 Rector Report"). Exhibit 2 of the report included a charge to the Life Actuarial (A) Task Force (LATF) to develop a level of reserves (the "Required Level of Primary Security") that must be supported by certain defined assets ("Primary Security"). The level of reserves is to be calculated by a method referred to as the "Actuarial Method." Another charge to LATF was to promulgate an actuarial guideline specifying that, in order to comply with the NAIC *Actuarial Opinion and Memorandum Regulation*, Model 822 ("AOMR") as it relates to XXX/AXXX reinsurance arrangements, the opining actuary must issue a qualified opinion as to the ceding insurer's reserves if the ceding insurer or any insurer in its holding company system has engaged in a XXX/AXXX reserve financing arrangement that does not adhere to the Actuarial Method and Primary Security forms adopted by the NAIC. The initial version of *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation* (AG 48) was developed in response to that charge with an effective date of January 1, 2015.

Coordination between this Actuarial Guideline and the NAIC Term and Universal Life Insurance Reserve Financing Model Regulation (Model #787)

Subsequently, on January 8, 2016, the NAIC adopted revisions to the *Credit for Reinsurance Model Law* (Model #785). Among other things, the revisions to Model #785 provide commissioners with the authority to enact, by regulation, additional requirements for ceding insurers to claim credit for reinsurance with respect to certain XXX/AXXX financing arrangements. On December 13, 2016, the NAIC adopted the *Term and Universal Life Insurance Reserve Financing Model Regulation* (Model #787), the regulation permitted by Model #785. LATF subsequently received a charge to redraft AG 48 to make it as consistent as possible with the provisions of Model #787. The current version of this actuarial guideline is the result.

The following is an overview of the interrelationship between this actuarial guideline and Model #787, and the regulatory strategy that led to the adoption of each:

1. The initial version of this actuarial guideline immediately established national standards for the use of XXX/AXXX financing arrangements in an attempt to quickly set minimum standards based on the framework adopted by the PBRI Task Force on June 30, 2014. This initial version applied to such reinsurance arrangements entered into on or after 1/1/2015.

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2. The revised statute (the NAIC *Credit for Reinsurance Model Law* (Model #785)) and a new regulation (the NAIC *Term and Universal Life Insurance Reserve Financing Model Regulation* (Model #787)) were then developed and adopted by the NAIC.

3. Except as noted in #4 below, this actuarial guideline will cease to be effective, on a state by state basis, as individual states enact Model #785 and adopt Model #787 to replace it.

4. Notwithstanding, it is anticipated that in a small number of states, Model #787 will need to be adopted on a "prospective" basis only (that is, it will only apply to ceded policies issued on or after the effective date thereof). In those cases, this actuarial guideline will remain as the authority for ceded policies subject to this actuarial guideline but to which Model #787, as adopted in a given state, does not apply. So although its role might diminish, this actuarial guideline will remain an essential part of the regulatory framework for a small number of states for many years to come.

5. To ensure uniformity of treatment between states, companies, and ceded policies (whether governed by this actuarial guideline or by Model #787) and to avoid confusion, this actuarial guideline is being updated, effective as of January 1, 2017, to make it as substantively identical to Model #787 as possible.

Authority, Avoidance, and Purpose

The requirements in this actuarial guideline derive authority from Section 3 of the AOMR, or, after the Operative Date of the *Valuation Manual*, from Section 1 of VM-30 of the *Valuation Manual*. Both Section 3 of the AOMR and Section 1 of VM-30 provide that the commissioner has the authority to specify specific methods of actuarial analysis and actuarial assumptions when, in the commissioner's judgment, these specifications are necessary for an acceptable opinion to be rendered relative to the adequacy of reserves and related items. As contained in the framework adopted by the PBRI Task Force on June 30, 2014, this actuarial guideline defines new terms, such as Primary Security and Required Level of Primary Security, specifies the Actuarial Method used to calculate the Required Level of Primary Security, and specifies other requirements that must be followed when reinsurance is involved in order for the appointed actuary to render an actuarial opinion that is not qualified.

No statute, regulation or guideline can anticipate every potential XXX/AXXX captive arrangement. Common sense and professional responsibility are needed to assure not only that the text of this actuarial guideline is strictly observed, but also that its purpose and intent are honored scrupulously. To that end, and to provide documentation to the appointed actuary as to the arrangements that are subject to review under this actuarial guideline, the appointed actuary may request from each ceding insurer, and may rely upon, the certification by the Chief Financial Officer or other responsible officer of each ceding insurer filed with the insurer's domiciliary regulator that the insurer has not engaged in any arrangement or series of arrangements involving XXX or AXXX reserves that are designed to exploit a perceived ambiguity in, or to violate the purpose and intent of, this actuarial guideline.

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The purpose and intent of this actuarial guideline is to establish uniform, national standards governing XXX or AXXX reserve financing arrangements[1] in conformity with the PBRI Task Force framework and, in connection with such arrangements, to ensure that Primary Security, in an amount at least equal to the Required Level of Primary Security, is held by or on behalf of the ceding insurer. As described further in Section 4.B., the provisions of this actuarial guideline are not intended to apply to policies that were issued prior to 1/1/2015 if those policies were included in a captive reserve financing arrangement as of 12/31/2014. Further, the requirements of this actuarial guideline should be viewed as minimum standards and are not a substitute for the diligent analysis of reserve financing arrangements by regulators. A regulator should impose requirements in addition to those set out in this actuarial guideline if the facts and circumstances warrant such action.

Text

1. Authority

Pursuant to Section 3 of the AOMR or, after the Operative Date of the *Valuation Manual*, to Section 1 of VM-30 of the *Valuation Manual*, the commissioner shall have the authority to specify specific methods of actuarial analysis and actuarial assumptions when, in the commissioner's judgment, these specifications are necessary for an acceptable opinion to be rendered relative to the adequacy of reserves and related items.

2. Scope

This actuarial guideline applies to reinsurance contracts that cede liabilities pertaining to Covered Policies as that term is defined in Section 4.

3. Exemptions

This actuarial guideline does not apply to the situations described in Subsections A through F.

A. Reinsurance of:

(1) Policies that satisfy the criteria for exemption set forth in Section 6F or Section 6G of Model #830; and which are issued before the later of:

(a) The effective date of Model #787 in the state of domicile of the ceding insurer, and

(b) The date on which the ceding insurer begins to apply the provisions of VM-20 to establish the ceded policies' statutory reserves, but in no event later than January 1, 2020;

(2) Portions of policies that satisfy the criteria for exemption set forth in Section 6E of Model #830 and which are issued before the later of:

[1] In general, reserve financing arrangements are those where the security/assets backing part or all of the reserves have one or more of the following characteristics: such security/assets (1) are issued by the ceding insurer or its affiliates; and/or (2) are not unconditionally available to satisfy the general account obligations of the ceding insurer; and/or (3) create a reimbursement, indemnification or other similar obligation on the part of the ceding insurer or any if its affiliates (other than a payment obligation under a derivative contract acquired in the normal course and used to support and hedge liabilities pertaining to the actual risks in the policies ceded pursuant to the reinsurance arrangement).

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(a) The effective date of Model #787 in the state of domicile of the ceding insurer, and

(b) The date on which the ceding insurer begins to apply the provisions of VM-20 to establish the ceded policies' statutory reserves, but in no event later than January 1, 2020;

(3) Any universal life policy that meets all of the following requirements:

(a) Secondary guarantee period, if any, is five (5) years or less;

(b) Specified premium for the secondary guarantee period is not less than the net level reserve premium for the secondary guarantee period based on the CSO valuation tables and valuation interest rate applicable to the issue year of the policy; and

(c) The initial surrender charge is not less than one hundred percent (100%) of the first year annualized specified premium for the secondary guarantee period;

(4) Credit life insurance;

(5) Any variable life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts; or

(6) Any group life insurance certificate unless the certificate provides for a stated or implied schedule of maximum gross premiums required in order to continue coverage in force for a period in excess of one year; or

B. Reinsurance ceded to an assuming insurer that meets the applicable requirements of Section 2D of Model #787; or

C. Reinsurance ceded to an assuming insurer that meets the applicable requirements of Sections 2A, 2B or 2C of Model #785, and that, in addition:

(1) Prepares statutory financial statements in compliance with the NAIC *Accounting Practices and Procedures Manual*, without any departures from NAIC statutory accounting practices and procedures pertaining to the admissibility or valuation of assets or liabilities that increase the assuming insurer's reported surplus and are material enough that they need to be disclosed in the financial statement of the assuming insurer pursuant to *Statement of Statutory Accounting Principles No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* ("SSAP No. 1"); and

(2) Is not in a Company Action Level Event, Regulatory Action Level Event, Authorized Control Level Event, or Mandatory Control Level Event as those terms are defined in the NAIC *Risk-Based Capital (RBC) for Insurers Model Act* (Model #312) when its RBC is calculated in accordance with the life risk-based capital report including overview and instructions for companies, as the same may be amended by the NAIC from time to time, without deviation; or

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D. Reinsurance ceded to an assuming insurer that meets the applicable requirements of Sections 2A, 2B or 2C, of Model #785, and that, in addition:

(1) Is not an affiliate, as that term is defined in Section 1A of the NAIC *Insurance Holding Company System Regulatory Model Act* (Model #440), of:

(a) The insurer ceding the business to the assuming insurer; or

(b) Any insurer that directly or indirectly ceded the business to that ceding insurer;

(2) Prepares statutory financial statements in compliance with the NAIC *Accounting Practices and Procedures Manual*;

(3) Is both:

(a) Licensed or accredited in at least 10 states (including its state of domicile), and

(b) Not licensed in any state as a captive, special purpose vehicle, special purpose financial captive, special purpose life reinsurance company, limited purpose subsidiary, or any other similar licensing regime; and

(4) Is not, or would not be, below 300% of the Authorized Control Level RBC as that term is defined in Model #312 when its risk-based capital (RBC) is calculated in accordance with the life risk-based capital report including overview and instructions for companies, as the same may be amended by the NAIC from time to time, without deviation, and without recognition of any departures from NAIC statutory accounting practices and procedures pertaining to the admission or valuation of assets or liabilities that increase the assuming insurer's reported surplus; or

E. Reinsurance ceded to an assuming insurer that meets the requirements of either Section 5B(4)(a) of Model #785, pertaining to certain certified reinsurers or Section 5B(4)(b) of Model #785, pertaining to reinsurers meeting certain threshold size and licensing requirements; or

F. Reinsurance not otherwise exempt under Subsections A through E if the commissioner, after consulting with the NAIC Financial Analysis Working Group (FAWG) or other group of regulators designated by the NAIC, as applicable, determines under all the facts and circumstances that all of the following apply:

(1) The risks are clearly outside of the intent and purpose of this actuarial guideline (as described in the Authority, Avoidance and Purpose section above);

(2) The risks are included within the scope of this actuarial guideline only as a technicality; and

(3) The application of this actuarial guideline to those risks is not necessary to provide appropriate protection to policyholders. The commissioner shall publicly disclose any decision made pursuant to this Section 3F to exempt a reinsurance

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treaty from this actuarial guideline, as well as the general basis therefor (including a summary description of the treaty).

Drafting Note: *The exemption set forth in Section 3F was added to address the possibility of unforeseen or unique transactions. This exemption exists because the NAIC recognizes that foreseeing every conceivable type of reinsurance transaction is impossible; that in rare instances unanticipated transactions might get caught up in this actuarial guideline purely as a technicality; and that regulatory relief in those instances may be appropriate. The example that was given at the time this exemption was developed pertained to bulk reinsurance treaties where the ceding insurer was exiting the type of business ceded. The exemption should not be used with respect to so-called "normal course" reinsurance transactions; rather, such transactions should either fit within one of the standard exemptions set forth in Sections 3A, B, C, D, or E or meet the substantive requirements of this actuarial guideline.*

4. Definitions

A. "Actuarial Method" means the methodology used to determine the Required Level of Primary Security, as described in Section 5.

B. "Covered Policies" means the following: Subject to the exemptions described in Section 3, Covered Policies are those policies, other than Grandfathered Policies, of the following policy types:

(1) Life insurance policies with guaranteed nonlevel gross premiums and/or guaranteed nonlevel benefits, except for flexible premium universal life insurance policies; or,

(2) Flexible premium universal life insurance policies with provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period.

Note*: Although "Covered Policies" is defined to include all the policies described in Subsections B1 and B2 above, it is noted that whether a given "Covered Policy" is subject to this actuarial guideline or, instead, to Model #787 should be determined under Section 8 (Sunset).*

C. "Grandfathered Policies" means policies of the types described in Subsections B1 and B2 above that were

(1) Issued prior to January 1, 2015; and

(2) Ceded, as of December 31, 2014, as part of a reinsurance treaty that would not have met one of the exemptions set forth in Section 3 had that section then been in effect.

D. "Non-Covered Policies" means any policy that does not meet the definition of Covered Policies, including Grandfathered Policies.

E. "Required Level of Primary Security" means the dollar amount determined by applying the Actuarial Method to the risks ceded with respect to Covered Policies, but not more than the total reserve ceded.

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F. "Primary Security" means the following forms of security:

(1) Cash meeting the requirements of Section 3A of Model #785;

(2) Securities listed by the Securities Valuation Office meeting the requirements of Section 3B of Model #785, but excluding any synthetic letter of credit, contingent note, credit-linked note or other similar security that operates in a manner similar to a letter of credit, and excluding any securities issued by the ceding insurer or any of its affiliates; and

(3) For security held in connection with funds-withheld and modified coinsurance reinsurance treaties:

(a) Commercial loans in good standing of CM3 quality and higher;

(b) Policy Loans; and

(c) Derivatives acquired in the normal course and used to support and hedge liabilities pertaining to the actual risks in the policies ceded pursuant to the reinsurance treaty.

G. "Other Security" means any security acceptable to the commissioner other than security meeting the definition of Primary Security.

H. "*Valuation Manual*" means the valuation manual adopted by the NAIC as described in Section 11B(1) of the Standard Valuation Law, with all amendments adopted by the NAIC that are effective for the financial statement date on which credit for reinsurance is claimed.

I. "VM-20" means "Requirements for Principle-Based Reserves for Life Products," including all relevant definitions, from the *Valuation Manual*.

5. The Actuarial Method

A. Description of Actuarial Method

The Actuarial Method to establish the Required Level of Primary Security for each reinsurance treaty subject to this actuarial guideline shall be VM-20, applied on a treaty-by-treaty basis, including all relevant definitions, from the *Valuation Manual* as then in effect, applied as follows:

(1) For Covered Policies described in Section 4B(1) above, the Actuarial Method is the greater of the Deterministic Reserve or the Net Premium Reserve (NPR) regardless of whether the criteria for exemption testing can be met. However, if the Covered Policies do not meet the requirements of the Stochastic Reserve exclusion test in the *Valuation Manual*, then the Actuarial Method is the greatest of the Deterministic Reserve, the Stochastic Reserve, or the NPR. In addition, if such Covered Policies are reinsured in a reinsurance treaty that also contains Covered Policies described in Section 4B(2) above, the ceding insurer may elect to instead use paragraph 2 below as the Actuarial Method for the entire reinsurance agreement. Whether Paragraph 1 or 2 are used, the Actuarial Method must comply with any requirements or restrictions that the *Valuation Manual* imposes when aggregating these policy types for purposes of principle-based

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reserve calculations. The mortality basis for the NPR shall be the 2017 CSO Mortality Table.

(2) For Covered Policies described in Section 4B(2) above, the Actuarial Method is the greatest of the Deterministic Reserve, the Stochastic Reserve, or the NPR regardless of whether the criteria for exemption testing can be met. The mortality basis for the NPR shall be the 2017 CSO Mortality Table.

(3) Except as provided in Paragraph (4) below, the Actuarial Method is to be applied on a gross basis to all risks with respect to the Covered Policies as originally issued or assumed by the ceding insurer.

(4) If the reinsurance treaty cedes less than one hundred percent (100%) of the risk with respect to the Covered Policies then the Required Level of Primary Security may be reduced as follows:

(a) If a reinsurance treaty cedes only a quota share of some or all of the risks pertaining to the Covered Policies, the Required Level of Primary Security, as well as any adjustment under Subparagraph (c) below, may be reduced to a pro rata portion in accordance with the percentage of the risk ceded;

(b) If the reinsurance treaty in a non-exempt arrangement cedes only the risks pertaining to a secondary guarantee, the Required Level of Primary Security may be reduced by an amount determined by applying the Actuarial Method on a gross basis to all risks, other than risks related to the secondary guarantee, pertaining to the Covered Policies, except that for Covered Policies for which the ceding insurer did not elect to apply the provisions of VM-20 to establish statutory reserves, the Required Level of Primary Security may be reduced by the statutory reserve retained by the ceding insurer on those Covered Policies, where the retained reserve of those Covered Policies should be reflective of any reduction pursuant to the cession of mortality risk on a yearly renewable term basis in an exempt arrangement;

(c) If a portion of the Covered Policy risk is ceded to another reinsurer on a yearly renewable term basis in an exempt arrangement, the Required Level of Primary Security may be reduced by the amount resulting by applying the Actuarial Method including the reinsurance section of VM-20 to the portion of the Covered Policy risks ceded in the exempt arrangement, except that for Covered Policies issued prior to Jan 1, 2017, this adjustment is not to exceed [c_x/ (2 * number of reinsurance premiums per year)] where c_x is calculated using the same mortality table used in calculating the Net Premium Reserve; and

(d) For any other treaty ceding a portion of risk to a different reinsurer, including but not limited to stop loss, excess of loss and other non-proportional reinsurance treaties, there will be no reduction in the Required Level of Primary Security.

It is possible for any combination of Subparagraphs (a), (b), (c), and (d) above to apply. Such adjustments to the Required Level of Primary Security will be done in the sequence that accurately reflects the portion of the risk ceded via the treaty.

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The ceding insurer should document the rationale and steps taken to accomplish the adjustments to the Required Level of Primary Security due to the cession of less than one hundred percent (100%) of the risk.

The Adjustments for other reinsurance will be made only with respect to reinsurance treaties entered into directly by the ceding insurer. The ceding insurer will make no adjustment as a result of a retrocession treaty entered into by the assuming insurers.

(5) In no event will the Required Level of Primary Security resulting from application of the Actuarial Method exceed the amount of statutory reserves ceded.

(6) If the ceding insurer cedes risks with respect to Covered Policies, including any riders, in more than one reinsurance treaty subject to this actuarial guideline, in no event will the aggregate Required Level of Primary Security for those reinsurance treaties be less than the Required Level of Primary Security calculated using the Actuarial Method as if all risks ceded in those treaties were ceded in a single treaty subject to this actuarial guideline.

(7) If a reinsurance treaty subject to this actuarial guideline cedes risk on both Covered and Non-Covered Policies:

(a) The Actuarial Method shall be used to determine the Required Level of Primary Security for the Covered Policies; and

(b) Any Primary Security and/or Other Security used to meet any requirements pertaining to the Non-Covered Policies may not be used to satisfy any requirements related to the Required Level of Primary Security and/or Other Security for the Covered Policies.

B. Valuation Used for Purposes of Calculations

For the purposes of both calculating the Required Level of Primary Security pursuant to the Actuarial Method and determining the amount of Primary Security and Other Security, as applicable, held by or on behalf of the ceding insurer, the following shall apply:

(1) For assets, including any such assets held in trust, that would be admitted under the NAIC *Accounting Practices and Procedures Manual* if they were held by the ceding insurer, the valuations are to be determined according to statutory accounting procedures as if such assets were held in the ceding insurer's general account and without taking into consideration the effect of any prescribed or permitted practices; and

(2) For all other assets, the valuations are to be those that were assigned to the assets for the purpose of determining the amount of reserve credit taken. In addition, the asset spread tables and asset default cost tables required by VM-20 shall be included in the Actuarial Method if adopted by the NAIC's Life Actuarial (A) Task Force no later than the December 31 on or immediately preceding the valuation date for which the Required Level of Primary Security is being

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calculated. The tables of asset spreads and asset default costs shall be incorporated into the Actuarial Method in the manner specified in VM-20.

6. Required Actuarial Analysis and Actuarial Opinion and Memorandum Requirements

A. Required Actuarial Analysis

Before the due date of each actuarial opinion, as to each reinsurance treaty in which Covered Policies have been ceded, the appointed actuary of each ceding insurer must perform an analysis on a treaty by treaty basis, of such Covered Policies to determine whether, as of the immediately preceding December 31 (the valuation date):

(1) Funds consisting of Primary Security, in an amount at least equal to the Required Level of Primary Security, are held by or on behalf of the ceding insurer, as security under the reinsurance treaty within the meaning of Section 3 of Model #785, on a funds withheld, trust, or modified coinsurance basis; and

(2) Funds consisting of Other Security, in an amount at least equal to any portion of the statutory reserves as to which Primary Security is not held pursuant to Paragraph (1) above, are held by or on behalf of the ceding insurer as security under the reinsurance treaty within the meaning of Section 3 of Model #785; and

***Note**: For the sake of clarity, funds consisting of Primary Security pursuant to Paragraphs (1) may exceed the Required Level of Primary Security, and Other Security is only required under Paragraph (2) to the extent that there is any portion of the statutory reserves as to which Primary Security is not so held. For example, if a ceding insurer's statutory reserves equal $1.2 Billion, its Required Level of Primary Security is $600 Million, and it holds $1 Billion in Primary Security pursuant to Paragraph (1), no Other Security is required under Paragraph (2).*

(3) Any trust used to satisfy the requirements of this Section 6 complies with all of the conditions and qualifications of Section 11 of the NAIC *Credit for Reinsurance Model Regulation* (Model #786), except that:

(a) Funds consisting of Primary Security or Other Security held in trust, shall for the purposes identified in Section 5B, be valued according to the valuation rules set forth in Section 5B, as applicable; and

(b) There are no affiliate investment limitations with respect to any security held in such trust if such security is not needed to satisfy the requirements of Section 6A(1); and

(c) The reinsurance treaty must prohibit withdrawals or substitutions of trust assets that would leave the fair market value of the Primary Security within the trust (when aggregated with Primary Security outside the trust that is held by or on behalf of the ceding insurer in the manner required by Section 6A(1)) below 102% of the level required by Section 6A(1) at the time of the withdrawal or substitution.

B. Qualified Actuarial Opinion; Remediation

(1) The appointed actuary of the ceding insurer performing the analysis required by Section 6A above must issue a qualified actuarial opinion as described in Section 6.D. of the AOMR or Section 3A(10) of VM-30 of the *Valuation Manual*, as applicable, unless:

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(a) The requirements of Section 6A(1) and 6(A)(2) were fully satisfied as of the valuation date as to such reinsurance treaty; or

(b) Any deficiency has been eliminated before the due date of the Annual Statement to which the valuation date relates through the addition of Primary Security and/or Other Security, as the case may be, in such amount and in such form as would have caused the requirements of Section 6A(1) and 6A(2) to be fully satisfied as of the valuation date; or

(c) The ceding insurer has established a liability equal to the excess of the credit for reinsurance taken over the amount of Primary Security actually held pursuant to Section 6A(1).

(2) In addition to the requirement set forth in Section 6B(1) above, the appointed actuary of the ceding insurer performing the analysis required by Section 6A above must issue a qualified actuarial opinion as described in Section 6.D. of the AOMR or Section 3A(10) of VM-30 of the *Valuation Manual*, as applicable, if the appointed actuary for any affiliated reinsurer of the ceding insurer issues a qualified actuarial opinion with respect to such affiliated reinsurer where (a) the affiliate reinsures Covered Policies of the ceding insurer and (b) the qualified actuarial opinion pertaining to the affiliated reinsurer results, in whole or in part, from the analysis required by this actuarial guideline.

***Note**: The remediation option set forth in Section 6B(1)(c) mirrors that set forth in Model #787. Under this option, a ceding company may choose to avoid the consequence (a qualified opinion under this actuarial guideline) by establishing a liability equal to the excess of the credit for reinsurance taken over the amount of Primary Security actually held. For example, suppose a ceding insurer has established statutory reserves of $1 Billion and has Primary Security of $550 Million and Other Security of $450 Million. Suppose further that the actuary determines that the insurer's Required Level of Primary Security is $600 Million. Under Section 6B(1)(c), the insurer may avoid a qualified opinion by establishing a liability equal to $450 Million (the difference between the statutory reserve of $1 Billion and the $550 Million amount of Primary Security actually held).*

C. Additional Requirements for the Actuarial Opinion and Memorandum for Companies that have Covered Policies Requiring the Analysis Pursuant to this actuarial guideline

(1) In the statement of actuarial opinion, the appointed actuary of the ceding insurer must state whether (i) he has performed an analysis, as to each reinsurance arrangement under which Covered Policies have been ceded, of the security supporting the Covered Policies and whether funds consisting of Primary Security in an amount at least equal to the Required Level of Primary Security are held by or on behalf of the ceding insurer, as security under the reinsurance contract, on a funds withheld, trust, or modified coinsurance basis and (ii) funds consisting of Primary Security or Other Security in an amount equal to the statutory reserves are held by or on behalf of the ceding insurer as security under the reinsurance arrangement.

(2) In the actuarial memorandum as described by Section 7 of the AOMR or Section 3B of VM-30 of the *Valuation Manual*, as applicable, the appointed actuary of the ceding insurer must document the analysis and requirements applied by this actuarial guideline as to each reinsurance arrangement under which Covered Policies are ceded.

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(3) In the event that a reinsurance treaty contains both (1) Covered Policies subject to this actuarial guideline rather than to Model #787, and (2) Covered Policies subject to Model #787 rather than to this actuarial guideline, the treaty shall be tested as a whole for purposes of a ceding insurer's compliance with both (a) the requirements of Section 6A(1) and Section 6A(2) of this actuarial guideline and (b) the requirements of Section 7A(3) and Section 7A(4) of Model #787; provided further, that:

(a) If funds consisting of Primary Security are held in amounts less than the Required Level of Primary Security, such funds consisting of Primary Security shall be allocated first to fulfill the Required Level of Primary Security for the Covered Policies subject to this actuarial guideline, with any remainder allocated to those Covered Policies subject to Model #787; and

(b) If funds consisting of Other Security are held in amounts less than the requirements of Section 6A(2), such funds consisting of Other Security shall be allocated first to fulfill the Other Security requirements for the Covered Policies subject to this actuarial guideline, and any remainder shall be allocated to those Covered Policies subject to Model #787.

7. Effective Date

This actuarial guideline shall become effective as of January 1, 2017 with respect to all Covered Policies. This actuarial guideline supersedes and replaces all previous versions thereof with respect to actuarial opinions rendered as to valuation periods ending on or after January 1, 2017.

***Note**: For the avoidance of doubt, actuarial opinions issued with respect to the year ended December 31, 2016, shall be governed by the version of AG 48 in effect on December 31, 2016, as included in the Accounting Practices and Procedures Manual.*

8. Sunset Provision

This actuarial guideline shall cease to apply as to Covered Policies that are both (a) issued by ceding insurers domiciled in a jurisdiction that has in effect, as of December 31st[t] of the calendar year immediately preceding the year in which the actuarial opinion is to be filed, a regulation substantially similar to Model #787 adopted by the NAIC on December 13, 2016; and (b) subject to Model #787 as so adopted by the ceding insurer's jurisdiction of domicile. This Actuarial Guideline shall continue to apply, without interruption, to any and all Covered Policies not included in both (a) and (b) of the immediate preceding sentence.

***Note**: It is anticipated that for most states, this actuarial guideline will sunset pursuant to (a) and (b) of Section 8 and will continue only with respect to the limited number of states in which their version of Model #787 applies prospectively only, i.e., applies only to Covered Policies issued on or after the effective date of their version of Model #787. It is anticipated, however, that most states will be able to adopt a version of Model #787 that, like the Model itself, applies to all Covered Policies (subject to the applicable exemptions and grandfathering provisions) that are "in force" on or after the effective date, even if the policies were originally issued prior to that effective date. The goal of Section 8 is to ensure that **all** Covered Policies ceded in reinsurance transactions within the scope of this actuarial guideline continue to be subject to this actuarial guideline unless and until they become subject to Model #787.*

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Actuarial Guideline XLIX

THE APPLICATION OF THE LIFE ILLUSTRATIONS MODEL REGULATION TO POLICIES WITH INDEX-BASED INTEREST

Background

The *Life Insurance Illustrations Model Regulation* (#582) was adopted by the NAIC in 1995. Since that time there has been continued evolution in product design, including the introduction of benefits that are tied to an external index or indices. Although these policies are subject to Model #582, not all of their features are explicitly referenced in the model, resulting in a lack of uniform practice in its implementation. In the absence of uniform guidance, two illustrations that use the same index and crediting method often illustrated different credited rates. The lack of uniformity can be confusing to potential buyers and can cause uncertainty among illustration actuaries when certifying compliance with Model #582.

This guideline provides uniform guidance for policies with index-based interest. In particular, this guideline:

(1) Provides guidance in determining the maximum crediting rate for the illustrated scale and the earned interest rate for the disciplined current scale.

(2) Limits the policy loan leverage shown in an illustration.

(3) Requires additional consumer information (side-by-side illustration and additional disclosures) that will aid in consumer understanding.

Text

1. Effective Date

This Actuarial Guideline shall be effective as follows:

i. Sections 4 and 5 shall be effective for all new business and in force life insurance illustrations on policies sold on or after September 1, 2015.

ii. Effective March 1, 2017, Section 4 and Section 5 shall be effective for all in-force life insurance illustrations on policies within the scope of this Actuarial Guideline, regardless of the date the policy was sold.

iii. Sections 6 and 7 shall be effective for all new business and in force life insurance illustrations on policies sold on or after March 1, 2016.

2. Scope

This Actuarial Guideline shall apply to any life insurance illustration that meets both (i) and (ii) below:

i. The policy is subject to Model #582.

ii. Interest credits are linked to an external index or indices.

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3. Definitions

A. **Alternate Scale**: A scale of non-guaranteed elements currently being illustrated such that:

i. The credited rate for each Index Account does not exceed the lesser of the maximum credited rate for the illustrated scale less 100 basis points and the credited rate for the Fixed Account. If the insurer does not offer a Fixed Account with the illustrated policy, the credited rate for each Index Account shall not exceed the average of the maximum credited rate for the illustrated scale and the guaranteed credited rate for that account. However, the credited rate for each Index Account shall never be less than the guaranteed credited rate for that account.

ii. If the illustration includes a loan, the illustrated rate credited to the loan balance does not exceed the illustrated loan charge.

iii. All other non-guaranteed elements are equal to the non-guaranteed elements for the illustrated scale.

B. **Benchmark Index Account**: An Index Account with the following features:

i. The interest calculation is based on the percent change in S&P 500® Index value only, over a one-year period using only the beginning and ending index values. (S&P 500® Index ticker: SPX)

ii. An annual cap is used in the interest calculation.

iii. The annual floor used in the interest calculation shall be 0%.

iv. The participation rate used in the interest calculation shall be 100%.

v. Interest is credited once per year.

vi. Account charges do not exceed the account charges for any corresponding Index Accounts within the policy in any policy year. If Index Accounts with different levels of account charges are offered with the illustrated policy, more than one Benchmark Index Account may be used in determining the maximum illustrated crediting rates for the policy's Index Accounts, subject to the requirements of paragraph 3 (D). However, for each Index Account within the policy, only one Benchmark Index Account shall apply. Any rate calculated in paragraph 4 (B) shall not apply for an Index Account if the account charges for the applicable Benchmark Index Account exceed the account charges for that Index Account in any policy year. Account charges include all charges applicable to an Index Account, whether deducted from policy values or from premiums or other amounts transferred into such Index Account.

vii. Additional amounts credited are not less than the additional amounts credited for any corresponding Index Accounts within the policy in any policy year. Any rate calculated in paragraph 4 (B) shall not apply for an Index Account if the additional amounts credited for the applicable Benchmark Index Account are less than the additional amounts credited for that Index Account in any policy year. Additional amounts include all credits that increase policy values, including but not limited to experience refunds or bonuses.

viii. There are no limitations on the portion of account value allocated to the account.

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C. **Fixed Account**: An account where the credited rate is not tied to an external index or indices.

D. **Index Account**: An account where the credited rate is tied to an external index or indices.

4. Illustrated Scale

The credited rate for the illustrated scale for each Index Account shall be limited as follows:

A. Calculate the geometric average annual credited rate for each applicable Benchmark Index Account for the 25-year period starting on 12/31 of the calendar year that is 26 years prior to the current calendar year (e.g., 12/31/1949 for 2015 illustrations) and for each 25-year period starting on each subsequent trading day thereafter, ending with the 25-year period that ends on 12/31 of the prior calendar year.

i. If the insurer offers an applicable Benchmark Index Account with the illustrated policy, the illustration actuary shall use the current annual cap for the applicable Benchmark Index Account in paragraph 4 (A).

ii. If the insurer does not offer an applicable Benchmark Index Account with the illustrated policy, the illustration actuary shall use actuarial judgment to determine a hypothetical, supportable current annual cap for a hypothetical, supportable Index Account that meets the definition of a Benchmark Index Account, and shall use that cap in paragraph 4 (A).

B. For each applicable Benchmark Index Account, the arithmetic mean of the geometric average annual credited rates calculated in paragraph 4 (A) shall be the maximum credited rate(s) for the illustrated scale.

C. For other Index Accounts using other equity, bond, and/or commodity indexes, and/or using other crediting methods, the illustration actuary shall use actuarial judgment to determine the maximum credited rate for the illustrated scale. The determination shall reflect the fundamental characteristics of the Index Account and the parameters shall have the appropriate relationship to the expected risk and return of the applicable Benchmark Index Account. In no event shall the credited rate for the illustrated scale exceed the applicable rate calculated in paragraph 4 (B).

D. At the beginning of each calendar year, the insurer shall be allowed up to three (3) months to update the credited rate for each Index Account in accordance with paragraphs 4 (B) and 4 (C).

5. Disciplined Current Scale

The earned interest rate for the disciplined current scale shall be limited as follows:

A. If an insurer engages in a hedging program for index-based interest, the assumed earned interest rate underlying the disciplined current scale shall not exceed 145% of the annual net investment earnings rate (gross portfolio earnings less provisions for investment expenses and default costs) of the general account assets (excluding hedges for index-based credits) allocated to support the policy.

B. If an insurer does not engage in a hedging program for index-based interest, the assumed earned interest rate underlying the disciplined current scale shall not exceed the annual net investment earnings rate of the general account assets allocated to support the policy.

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C. These experience limitations shall be included when testing for self-support and lapse-support under Model #582, accounting for all benefits including illustrated bonuses.

D. If more than one Benchmark Index Account is used for an illustrated policy, each set of Index Accounts that correspond to each Benchmark Index Account must independently pass the self-support and lapse-support tests under Model #582, subject to the limitations in paragraphs 5 (A), 5 (B) and 5 (C). All experience assumptions that do not directly relate to the Index Accounts as to expenses, mortality, investment earnings rate of the general account assets, lapses, and election of any Fixed Account shall equal the assumptions used in the testing for the entire policy.

6. Policy Loans

If the illustration includes a loan, the illustrated rate credited to the loan balance shall not exceed the illustrated loan charge by more than 100 basis points.

7. Additional Standards

The basic illustration shall also include the following:

A. A ledger using the Alternate Scale shall be shown alongside the ledger using the illustrated scale with equal prominence.

B. A table showing the minimum and maximum of the geometric average annual credited rates calculated in paragraph 4 (A).

C. For each Index Account illustrated, a table showing actual historical index changes and corresponding hypothetical interest rates using current index parameters for the most recent 20-year period.

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Actuarial Guideline L

2013 INDIVIDUAL DISABILITY INCOME VALUATION TABLE ACTUARIAL GUIDELINE

A. Background

The 2013 IDI Valuation Table, as included in the *Health Insurance Reserves Model Regulation* (#10), is the valuation standard to replace the 1985 Commissioner's Individual Disability Tables (85CIDA/85CIDC). The link below brings one to the 2013 IDI Valuation Table workbook and instructions:

http://www.naic.org/documents/01_2013_idi_valuation_table_workbook_and_instructions_version_1_3.zip

An actuarial guideline is more appropriate to handle the multiple segments of the 2013 IDI Valuation Table, the computations of own experience, the application of credibility, and successor updates to the table, which are not normally found in model regulations.

B. Purpose

The purpose of this actuarial guideline is to provide instructions for the use of the 2013 IDI Valuation Table that is referenced in the *Health Insurance Reserves Model Regulation* (#10). This guideline pertains to IDI claims consistent with the conditions defined in the model regulation, and governs the selection of claim termination rates for the purpose of calculating IDI claim reserves. This guideline does not address reserve adequacy, which remains the concern of the insurer according to the terms expressed in the model regulation.

Although the various detailed formulas in this guideline do not address or define reserve adequacy directly, it is assumed that appropriate adequacy tests will be made periodically. Such adequacy testing is considered to be an additional tool for the actuary to make appropriate choices in cases in which leeway from any prescription made herein is allowed (e.g., E/E calculation, margin, etc.) so that the calculation of the reserve generally will be adequate and the actuary does not need to continually rely on other measures to achieve adequacy. In addition to the instances in which leeway from prescription is mentioned below, nothing in this guideline should be assumed to prohibit the actuary from building a case and requesting permission from the state insurance commissioner for other appropriate variations. Many such situations, because they would apply to fully credible blocks of business and are intended for continual use, should be considered for approval by the commissioner for a period tied to the updates required by section C.vi. of this guideline and not approved on an annual basis.

When the insurer follows the instructions provided in this guideline, the selected claim termination rates meet the minimum valuation standard defined in the model regulation.

C. Valuation Table Modifications

If not invoking the own experience measurement exemption exception specified in section E of this guideline, a company should use a credibility weighted combination of its own claim termination experience with the 2013 IDI Valuation Table to create its specific valuation table for the purpose of calculating disabled life reserve (DLR).

For claims in duration group 1 (months 1 to 12 following disability incurral) or greater, the valuation termination rates are computed using the termination rates from the 2013 IDI Valuation Table (S) multiplied by experience adjustment factors (T) that are calculated separately for four different duration groups.

$$\text{Valuation Termination Rate} = T \times S$$

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The duration groups are defined as follows:

Group 1: duration 1 to 12 months
Group 2: duration > 12 months and duration <= 24 months
Group 3 duration > 24 months and duration <= 60 months
Group 4: duration > 60 months and duration <= 120 months
Group 5: duration > 120 months

S is the claim termination rates from the 2013 IDI Valuation Table; and

T is computed as $T = [Z \times F * (1\text{-}M) + (1 - Z)]$.

Z is a credibility weighting factor, between 0 and 1, developed for each duration group according to the following specifications:

Group 1-5: $Z = Min\left(\sqrt{N/K}, 1\right)$ *N* is the number of expected claimant termination counts from the 2013 IDI Valuation Table.

K is a set of constants defined by duration group as follows:

Group 1 and 2: *K* = 3,300
Group 3: *K* = 2,500
Group 4: *K* = 2,100
Group 5: *K* = 1,700

F is the ratio of the company's actual total of termination counts to the expected termination counts for the 2013 IDI Valuation Table for each duration group specified above;

The A/E ratio (F) is to be determined based on monthly indemnity. If the actuary has reserve adequacy or other significant analysis that demonstrates that some other weighting of claims (claim or claimant counts, gross benefit, net benefit, etc.) is appropriate for measuring A/E, and also is expected to produce reserves not less than those produced by using a monthly indemnity measurement, such alternative measurement is deemed appropriate. If the actuary cannot produce A/E ratios based on monthly indemnity and only based on claim count or claimant count, an adjustment factor on 0.962 should be multiplied by the A/E ratios in each duration segment to convert them to an indemnity basis. The 0.962 factor is based on the observed relationship for indemnity- versus count-based claim termination experience in the IDI Valuation Table.

M is the company experience margin, determined for each duration group 2 or greater according to the following formula:

$$M = Min\left(15\%, Max\left(5\%, 3\% + 1.65 * \sqrt{A/C}\right)\right)$$

This is the minimum value for the definition of M prior to any reserve adequacy analysis. Adequacy tests and analysis of experience (sharpness of fluctuations, trends over the period of the termination rate study, changing claims practices, etc.) may indicate that a larger value of M may be more appropriate. If so, such a value is deemed appropriate. For duration group 1 (1 to 12 months), M is 5 percent, the same as the 2013 IDI Valuation Table margin for duration 1.

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A is a set of constants defined by duration group as follows:

Group 1 and 2: $A = 4.0$
Group 3: $A = 3.0$
Group 4: $A = 2.5$
Group 5: $A = 2.0$

C is the company's actual number of total claimant termination counts by duration group. If an actuary cannot directly determine claimant termination counts, he or she may approximate it using the average number of claims per claimant for their block of claims.

The company should not use termination rates that produce total reserves for claims disabled for more than two years that are less than the reserves produced for these claims by computing F as $F = 1.30$.

D. Company-Specific Experience—Own Company Experience Measurement

In computing values F and S to comply with section B of this guideline, the appointed actuary should:

1. Segment the company claim termination experience into any major subgroup that may produce significantly different results (e.g., market niches, risk management practices, unique benefit designs, etc.);

2. Combine affiliated statutory entities and assumed reinsurance, in which claim management is under a common structure, when considering company experience. It also is appropriate to evaluate experience separately when specific blocks of company business have distinct risk management practices or significantly different risk characteristics;

3. Include all relevant experience the company is capable of providing for as many of the last five years (not including the lag period described below) as is appropriate;

4. Include a suitable lag period. Some claims may close retroactively, and others initially thought to be closed may reopen retroactively. Therefore, based on company experience, a suitable lag period is needed. The appointed actuary may use a lag period of up to 12 months if company experience shows it is appropriate. The five-year period mentioned above does not include the lag period;

5. Measure A/E based on monthly indemnity consistent with the development of the 2013 IDI Valuation Table. The A/E ratio is defined as the ratio of actual claim termination experience to the expected claim termination experience, according to the 2013 IDI Valuation Table with margin (by disability duration grouping). The A/E ratio is referred to as the variable F in section B, paragraph 4 of this guideline. For companies that can develop A/E studies only based on claim termination counts, an adjustment factor of 0.962 should be multiplied by their A/E ratio for each claim duration to convert it to an indemnity basis. The 0.962 factor was developed based on the relationship of the indemnity-based A/E to count-based A/E for the industry table;

6. In calculating expected claim terminations based on the 2013 IDI Valuation Table, companies should use all variables and modifiers with two exceptions:

   a. If a company has not maintained appropriate diagnosis codes on historical claim records, the company may set the diagnosis CTR modifier to 1.00.

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b. If a company has not maintained appropriate occupation codes on historical claim records to identify occupations and assign them to the five occupation classes of the 2013 IDI Valuation Table consistent with definitions of these occupation classes, the company may assign claims to Occ Classes 1, 2, 3, and 4 based on the way the company has assigned claims to the 85CIDA occupation classes.

7. Assign credibility based on claimant termination counts, and not monthly indemnity terminated. Companies should use claimant termination counts and not claim termination counts in determining the number of terminations for their own company experience credibility. Each company will need to make appropriate adjustments based on its average number of claims per claimant if it is not able to determine claimant termination counts directly and can only directly measure claim termination counts. For example, on average, if a company has 1.5 open claims per claimant and if it had 100 claim terminations in a duration segment over its five-year study period, it would divide 100 by 1.5 and use 67 claimant terminations when determining credibility;

8. Update the minimum valuation basis in accordance with section F of this guideline at least once every five years. In addition, the valuation basis also should be updated whenever the company's annual own experience study produces, in accordance with section B, a value T that changes by more than 10 percent from the one used in the current valuation basis for any of the five duration groups. All claims valued using the 2013 IDI Valuation Table share the same company experience factors. When the company experience factors are updated, the new factors apply to all claims valued using the 2013 table, including claims incurred prior to the update of the experience factors;

9. Do not count as terminations those claims that are closed due to settlement (i.e., a lump sum replacing a series of potential future payments); that have reached the end of the maximum benefit duration; or that are closed due to a contractual limitation, such as a mental disorder limitation. For this purpose a termination due to a change in definition of disability is not considered a termination due to reaching the maximum benefit duration. Terminations of residual or partial disability claims count as total disability terminations. Changes in the definition of disability do not count as a termination unless the claim actually terminates. If a claim closes when the definition of disability changes, that is counted as a claim termination;

10. Use experience that is otherwise relevant in accordance with the professional judgment of the appointed actuary;

11. Do not use experience that the commissioner has deemed inappropriate or likely to produce significantly inadequate reserves; and

12. In the above paragraphs, the term "company" refers to a single company or a group of legally related companies subject to the same claim management.

E. Own Experience Measurement Exemption

If, at the time of valuation, a company has fewer than 50 open claimants disabled within two years of the effective date of the valuation, and fewer than 200 open claimants disabled more than two years prior to the effective date of the valuation, the insurer is exempt from the requirement that the 2013 IDI Valuation Table be modified by the company's own experience. Said company should use 100 percent of the 2013 IDI Valuation Table for calculating claims termination rates in order to comply with the minimum valuation standard. This exemption is determined at the statutory company level and not at any segmented level that might be used in determining the own experience modifier.

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Actuarial Guideline LI

THE APPLICATION OF ASSET ADEQUACY TESTING TO LONG-TERM CARE INSURANCE RESERVES

Background

The *Health Insurance Reserves Model Regulation (#010)* and the *NAIC Valuation Manual (VM-25)* contain requirements for the calculation of long-term care insurance (LTC) reserves. Regulators have observed a lack of uniform practice in the implementation of tests of reserve adequacy and reasonableness of LTC reserves. The reserve adequacy testing required by Model #10 and VM-25 does not provide regulators comfort as to the reserve adequacy of companies with material blocks of LTC business. As such, regulators must rely upon asset adequacy analysis required by the *NAIC Valuation Manual* (*VM-30*) to evaluate the solvency position of companies with sizable blocks of LTC business. This Guideline is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for the asset adequacy testing applied to a company's LTC block of contracts. In particular, this Guideline:

(1) Specifies that the appropriate form of asset adequacy analysis may be in the form of a gross premium valuation or in a more robust form such as cash-flow testing, with Actuarial Standards of Practice providing guidance in this area;

(2) Clarifies the type of adequacy testing methods that must be used for aggregation with other blocks of business to be allowed for asset adequacy analysis purposes;

(3) Requires a uniform approach to supporting acceptable assumptions regarding future LTC premium rate increases;

(4) Provides requirements for documentation of assumptions associated with all key LTC risks; and

(5) Provides requirements for documentation of standalone LTC asset adequacy testing results.

Note: It is anticipated that the requirements contained in this Guideline will be incorporated into the *NAIC Valuation Manual* (VM-30) at a future date, effective for a future valuation year. This Guideline will cease to apply to annual statutory financial statements at the time the corresponding VM-30 requirements become effective.

Text

1. **Effective Date**

This Guideline shall be effective for reserves reported with the December 31, 2017, and subsequent annual statutory financial statements.

2. **Authority**

Pursuant to Section 1, paragraph 3, of *VM-30* of the *NAIC Valuation Manual*, the commissioner shall have the authority to specify specific methods of actuarial analysis and actuarial assumptions when, in the commissioner's judgment, these specifications are necessary for an acceptable opinion to be rendered relative to the adequacy of reserves and related items.

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3. **Scope**

This Guideline shall apply to a company with over 10,000 inforce lives covered by long-term care insurance contracts as of the valuation date. All long-term care insurance contracts, whether directly written or assumed through reinsurance are included. Accelerated death benefit products or other combination products where the substantial risk of the product is associated with life insurance or an annuity are not subject to this Guideline.

4. **Asset Adequacy Analysis of LTC Business**

A. As stated in Actuarial Standard of Practice (ASOP) No. 22, multiple asset adequacy analysis methods, including cash-flow testing and gross premium valuation, are available to actuaries for this analysis.

The method of analysis used for LTC shall conform with ASOP No. 22 in recognition of the typical significant asset and liability-related risks associated with LTC.

B. Asset adequacy analysis specific to all inforce LTC business, and without consideration of results for other block of business within the company, must be performed for valuations associated with the December 31, 2017, and subsequent annual statutory financial statements. The analysis shall comply with applicable Actuarial Standards of Practice, including standards regarding identification of key risks. Material assumptions associated with the LTC business shall be determined testing moderately adverse deviations in actuarial assumptions.

C. When determining whether additional reserves are necessary:

1. A reserve deficiency in the LTC block may be aggregated with sufficiencies in the company's other blocks of business for the purposes of developing an actuarial opinion, if cash-flow testing is used for both the LTC business and for all significant blocks of non-LTC business within a company. If a reserve deficiency in the LTC block is not offset with sufficiencies in the company's other blocks of business, then additional reserves shall be established as required by section 2.C.2. of *VM-30*.

2. If cash-flow testing is not used for testing of the LTC business, then a reserve deficiency revealed from another method, e.g., a gross premium valuation, utilized for purposes of asset adequacy analysis of the LTC block under this Guideline shall not be offset with sufficiencies in the company's other blocks of business. The additional reserves under this Guideline shall be established based only upon the adequacy of the reserves in the LTC block.

D. When determining the effect of investment returns or the time value of money:

1. In the case where cash-flow testing is used, the company must allocate investment income to the LTC block of business consistently with the way investment income generated by the General Account is managed. If, however, a segment of the General Account is used to manage the investment risk for LTC business, the investment income generated by assets from that segment should be appropriately represented within the asset adequacy analysis.

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2. In the case where a gross premium valuation method is used or asset cash flows are not explicitly modeled, the discount rate used by the actuary must reflect consideration of the yield on current assets held to support the liability as well as future yields on assets purchased with future premium income and reinvestments or anticipated divesture of existing assets.

E. The analysis shall only anticipate premium rate increases based upon a rate increase plan that is documented, is supported by and has been approved by management, is highly likely to be undertaken, and contains rate increase requests and timelines by jurisdiction. The assumptions used in the analysis should reflect a reasonable estimate of regulatory approved amounts and implementation timelines.

5. **Documentation Required**

The documentation requirements below are to be incorporated as a separate section of the appointed actuary's Actuarial Memorandum required by the *VM-30* or in a special Actuarial Memorandum containing LTC-specific information and shall be submitted to the commissioner of the company's state of domicile. The separate section of the companywide Actuarial Memorandum or the special Actuarial Memorandum shall be available to other state insurance commissioners in which the company is licensed upon request to the company. The confidentiality provisions regarding the Actuarial Memorandum contained in *VM-30* are applicable to the separate section of the Actuarial Memorandum and to the special Memorandum.

A. Results of the asset adequacy analysis of the LTC business shall be reported and documented in the separate section of the Actuarial Memorandum or the special Memorandum, as appropriate.

B. Assumptions on mortality shall be documented to state the reference standard valuation table, if applicable, and explicitly cite adjustments, select factors, and mortality improvement factors where applicable. If a reference standard valuation table is not used in setting the mortality assumption, then a table of rates and comparison of the applied rates to rates from an unmodified standard mortality table for sample issue ages shall be provided. A summary of experience or other actuarial support of assumptions used shall be documented.

C. Assumptions on voluntary lapse shall be documented in table format by duration band and by other factors such as gender, marital status, with versus without inflation rider, and length of benefit period impacting the lapse assumption, where applicable. A summary of experience or other support of assumptions shall be documented.

D. Assumptions on morbidity shall be documented and actuarial support of the assumption shall be provided. If an outside source is used as the basis for morbidity assumptions, then the rationale for the applicability of that source and any adjustments to the factors from that source shall be documented.

E. Assumptions on investment returns and interest rates shall be documented. If a simplified approach is applied, such as implicit reflection of projected investment returns through the use of discount rates in a gross premium valuation as contemplated in Section 4.D.2., then justification shall be provided.

F. Any rate increases already approved shall be documented by jurisdiction with approved implementation timelines. Assumptions on future rate increases shall be documented by policy form or policy grouping. Such documentation should adequately describe the way in which future rate increase assumptions are developed. Unless the appointed actuary has operational responsibility for carrying out the rate increase plan specified in Section 4.E.,

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the Memorandum shall contain a signed and dated reliance statement from the person with operational responsibility for carrying out such actions that the rate increase plan(s) provided to the appointed actuary appropriately reflects management's plan.

G. Documentation of any other material assumptions shall be provided.

H. Documentation shall be provided for assumptions that have significantly changed from the prior year's analysis.

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ACTUARIAL GUIDELINES – APPENDICES

Appendix C-1

Provides maximum reserve valuation and maximum life policy nonforfeiture interest rates for new issues, new purchases or changes in fund (as defined) under Section 4217, 4218, and 4221(k) of the New York Insurance Law as amended in 1982, 1983, 1985, 1986, 1987, 1988, 1990 and 1994. This information is provided for informational purposes and to aid compliance with the New York law.

Appendix C-2

Includes interpretations from the Emerging Actuarial Issues (E) Working Group adopted by the Financial Condition (E) Committee. The Financial Analysis (E) Working Group follows these interpretations in performing its reviews of the reserving methodologies under *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38).

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Appendix C-1

APPENDIX TO GUIDELINES

This information can be found on the New York State Department of Financial Services website:
http://www.dfs.ny.gov/insurance/life/ilifemax.htm

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
Maximum Reserve Valuation and Maximum Life Policy
Nonforfeiture Interest Rates

The maximum reserve valuation and nonforfeiture interest rates, prescribed by Sections 4217 and 4221(k) of the New York Insurance Law, are specified in "Table A through Table H Rates" noted below. Such rates vary from year to year based on Moody's corporate bond yield averages for 12 and 36 months ending on June 30, and weighting factors prescribed by Section 4217. The Moody's averages are provided for years 1981 to present in the attached Appendix.

Clarification on Fixed Annuity Reserves Interest Rates

We note that there has been some concern over the appropriate maximum valuation interest rate for flexible premium deferred annuities (FPDA). Section 4217(c)(4)(D)(iii) of the New York Insurance Law does not allow the use of the additional .05 weighting factor for annuities that guarantee interest rates on future considerations received more than twelve months beyond the valuation date. Accordingly, for flexible premium deferred annuities the weighting factors shown in Section 4217(c)(4)(D)(iii)(I) or 4217(c)(4)(D)(iii)(II) should be used. For convenience, maximum valuation interest rates for such FPDAs are shown in Table D (issue year basis) and Table G (change in fund basis). The rates shown in Table E and Table H are not appropriate for FPDAs.

- **General Information**
- **Table A through Table H Rates**
- **Appendix (Moody's Averages)**

Regulation 128 and Discontinued 30-year US Treasury Bond

To the extent Regulation 128 references the 30-year spot rate, the spot rate associated with the longest available Treasury bond (e.g., that maturing 2/15/31) should be used.

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DEPARTMENT OF FINANCIAL SERVICES
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ALBANY, NEW YORK 12257
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Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

August 27, 2018

TO: ALL AUTHORIZED LIFE INSURANCE COMPANIES, ACCREDITED LIFE REINSURERS, FRATERNAL BENEFIT SOCIETIES AND CHARITABLE ANNUITY SOCIETIES

SUBJECT: MAXIMUM RESERVE VALUATION AND MAXIMUM LIFE POLICY NONFORFEITURE INTEREST RATES

Attached hereto is an outline providing maximum reserve valuation and maximum life policy non-forfeiture interest rates for new issues, new purchases or changes in fund (as defined) for years 1982 through 2018 (and other years where shown), under Sections 4217, 4218 and 4221(k) of the New York Insurance Law, as amended in 1982, 1983, 1985, 1986, 1987, 1988, 1990, and 1994.

The maximum valuation and non-forfeiture interest rates, prescribed by Sections 4217 and 4221(k) of the New York Insurance Law for future years, will vary from year to year depending on Moody's corporate bond yield averages.

The maximum valuation interest rates for issues, purchases and changes-in-fund of years 1982 through 2018 (and other years where shown) are outlined below. The maximum valuation and non-forfeiture interest rates for Ordinary Life Insurance are shown in Category A of page 1, except for Single Premium Life Insurance, as defined in Section 4217(c)(4)(B)(vi), the maximum valuation interest rates for which are shown in Category B on page 2-4.

Please refer to Sections 4217 and 4221 of NY Insurance Law, Regulation 147 and Regulation 151 for definitions and explanations of valuation interest rate, guarantee duration, plan type and product category. Regulation 151 has been effective since February 28, 2001, and is available on our web site.

This notice is to be used for informational purposes, as an aid in complying with the law.

Should any person have any question or comment in regard to this information, please contact Mr. David Lochner of the Life Bureau at (518) 474-7929.

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A. ORDINARY LIFE INSURANCE (Except as covered in B)

Issue Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate	Maximum Nonforfeiture Interest Rate
1979-1981	10 years or less	4.50%	5.50%
	More than 10 years, up to 20	4.50	5.50
	More than 20 years	4.50	5.50
1982	10 years or less	6.75%	8.50%
	More than 10 years, up to 20	6.25	7.75
	More than 20 years	5.50	7.00
1983-1986	10 years or less	7.25%	9.00%
	More than 10 years, up to 20	6.75	8.50
	More than 20 years	6.00	7.50
1987	10 years or less	6.50%	8.25%
	More than 10 years, up to 20	6.00	7.50
	More than 20 years	5.50	7.00
1988-1992	10 years or less	6.00%	7.50%
	More than 10 years, up to 20	6.00	7.50
	More than 20 years	5.50	7.00
1993	10 years or less	6.00%	7.50%
	More than 10 years, up to 20	6.00	7.50
	More than 20 years	5.00	6.25
1994	10 years or less	5.50%	7.00%
	More than 10 years, up to 20	5.25	6.50
	More than 20 years	5.00	6.25
1995-1998	10 years or less	5.50%	7.00%
	More than 10 years, up to 20	5.25	6.50
	More than 20 years	4.50	5.75
1999-2005	10 years or less	5.00%	6.25%
	More than 10 years, up to 20	4.75	6.00
	More than 20 years	4.50	5.75
2006-2012	10 years or less	4.50%	5.75%
	More than 10 years, up to 20	4.25	5.25
	More than 20 years	4.00	5.00
2013-2019	10 years or less	3.75%	4.75%
	More than 10 years, up to 20	3.75	4.75
	More than 20 years	3.50	4.50

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B. Single Premium Life Insurance of the kind referred to in Section 4217(c)(4)(B)(vi) of the New York Insurance Laws (as amended by Chapter 302 of the laws of 1987).

		Maximum Reserve Valuation Interest Rate	
Issue Year	Guarantee Duration	Issue Year Basis	Change-in-Fund Basis
1982	10 years or less	10.00%	10.50%
	More than 10 years, up to 20	7.25	10.00
	More than 20 years	6.25	8.7
1983	10 years or less	8.75%	[illegible]
	More than 10 years, up to 20	7.00	8.75
	More than 20 years	6.25	7.7[illegible]
1984	10 years or less	8.50%	9.25%
	More than 10 years, up to 20	7.00	8.50
	More than 20 years	6.25	7.50
1985	10 years or less	8.5[illegible]	9.00%
	More than 10 years, up to 20	7.00	8.50
	More than 20 years	6.25	7.50
1986	10 years or less	7.2[illegible]%	7.75%
	More than 10 years, up to 20	[illegible]0	7.25
	More than 20 years	5.75	6.50
1987	10 years or less	6.50%	6.75%
	More than 10 years, up to 20	6.00	6.50
	More than 20 years	5.50	6.00
1988	10 years or less	7.00%	7.50%
	More than 10 years, up to [illegible]0	6.25	7.00
	More than 20 years	5.75	6.25
1989	10 years or less	7.00%	7.25%
	More than 10 years, up to 20	6.25	7.00
	More than 20 years	5.50	6.25
1990	10 years or less	6.50%	7.00%
	More than 10 years, up to 20	6.25	6.50
	More than 20 years	5.50	6.00
1991	10 years or less	6.75%	7.00%
	More than 10 years, up to 20	6.25	6.75
	More than 20 years	5.50	6.00
1992	10 years or less	6.25%	6.50%
	More than 10 years, up to 20	6.00	6.25
	More than 20 years	5.25	5.75

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B (cont.) Single Premium Life Insurance of the kind referred to in Section 4217(c)(4)(B)(vi) of the New York Insurance Laws (as amended by Chapter 302 of the laws of 1987).

		Maximum Reserve Valuation Interest Rate	
Issue Year	Guarantee Duration	Issue Year Basis	Change-in-Fund Basis
1993	10 years or less	5.75%	6.00%
	More than 10 years, up to 20	5.50	5.75
	More than 20 years	5.00	5.25
1994	10 years or less	5.50%	5.75%
	More than 10 years, up to 20	5.25	5.50
	More than 20 years	4.75	5.00
1995	10 years or less	6.00%	6.25%
	More than 10 years, up to 20	5.50	6.00
	More than 20 years	5.00	5.50
1996	10 years or less	5.50%	5.75%
	More than 10 years, up to 20	5.25	5.50
	More than 20 years	4.75	5.00
1997	10 years or less	5.50%	5.75%
	More than 10 years, up to 20	5.25	5.50
	More than 20 years	5.00	5.25
1998	10 years or less	5.25%	5.50%
	More than 10 years, up to 20	5.00	5.25
	More than 20 years	4.75	4.75
1999	10 years or less	5.25%	5.50%
	More than 10 years, up to 20	5.00	5.25
	More than 20 years	4.50	4.75
2000	10 years or less	5.75%	6.00%
	More than 10 years, up to 20	5.25	5.75
	More than 20 years	4.75	5.25
2001	10 years or less	5.50%	5.75%
	More than 10 years, up to 20	5.25	5.50
	More than 20 years	4.75	5.00
2002	10 years or less	5.50%	5.75%
	More than 10 years, up to 20	5.25	5.50
	More than 20 years	4.75	5.00
2003	10 years or less	5.00%	5.25%
	More than 10 years, up to 20	4.75	5.00
	More than 20 years	4.50	4.75

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B (cont.) Single Premium Life Insurance of the kind referred to in Section 4217(c)(4)(B)(vi) of the New York Insurance Laws (as amended by Chapter 302 of the laws of 1987).

		Maximum Reserve Valuation Interest Rate	
Issue Year	Guarantee Duration	Issue Year Basis	Change-in-Fund Basis
2004	10 years or less	4.75%	5.00%
	More than 10 years, up to 20	4.75	4.75
	More than 20 years	4.25	4.5
2005	10 years or less	4.50%	[illegible]
	More than 10 years, up to 20	4.50	4.50
	More than 20 years	4.00	[illegible]
2006	10 years or less	4.50%	4.75%
	More than 10 years, up to 20	4.50	4.50
	More than 20 years	4.25	4.25
2007	10 years or less	[illegible]	4.75%
	More than 10 years, up to 20	[illegible]	4.75
	More than 20 years	[illegible]	4.25
2008	10 years or less	[illegible]	5.00%
	More than 10 years, up to 20	[illegible]	4.75
	More than 20 years	4.25	4.50
2009	10 years or less	5.00%	5.25%
	More than 10 years, up to 20	4.75	5.00
	More than 20 years	4.25	4.75
2010	10 years or less	4.50%	4.75%
	More than 10 years, up to [illegible]	4.50	4.50
	More than 20 years	4.00	4.25
2011	10 years or less	4.25%	4.50%
	More than 10 years, up to 20	4.25	4.25
	More than 20 years	4.00	4.00
2012	10 years or less	3.75%	4.00%
	More than 10 years, up to 20	3.75	3.75
	More than 20 years	3.50	3.75
2013	10 years or less	3.75%	3.75%
	More than 10 years, up to 20	3.50	3.75
	More than 20 years	3.50	3.50
2014	10 years or less	4.00%	4.00%
	More than 10 years, up to 20	3.75	4.00
	More than 20 years	3.50	3.75

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B (cont.) Single Premium Life Insurance of the kind referred to in Section 4217(c)(4)(B)(vi) of the New York Insurance Laws (as amended by Chapter 302 of the laws of 1987).

		Maximum Reserve Valuation Interest Rate	
Issue Year	Guarantee Duration	Issue Year Basis	Change-in-Fund Basis
2015	10 years or less	3.75%	3.75%
	More than 10 years, up to 20	3.50	3.75
	More than 20 years	3.50	3.50
2016	10 years or less	3.75%	3.75%
	More than 10 years, up to 20	3.75	3.75
	More than 20 years	3.50	3.75
2017	10 years or less	3.50%	3.75%
	More than 10 years, up to 20	3.50	3.50
	More than 20 years	3.50	3.50
2018	10 years or less	3.50%	3.75%
	More than 10 years, up to 20	3.50	3.50
	More than 20 years	3.50	3.50

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C. Single Premium Immediate Annuities and annuity benefits arising from life insurance policies and annuity and guaranteed interest contracts with cash settlements options.

Issues of or Purchases During	Maximum Reserve Valuation Interest Rate
1982	13.25%
1983-1984	11.25
1985	11.00
1986	9.25
1987	8.00
1988	8.75
1989	8.75
1990	8.25
1991	8.25
1992	7.75
1993	7.00
1994	6.50
1995	7.25
1996-1997	6.75
1998-199	6.25
2000	7.00
200	6.75
200	6.50
2003	6.00
2004	5.50
2005-2006	5.25
2007-2008	5.50
2009	6.00

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C (cont.) Single Premium Immediate Annuities and annuity benefits arising from life insurance policies and annuity and guaranteed interest contracts with cash settlements options.

Issues of or Purchases During	Maximum Reserve Valuation Interest Rate
2010	5.25
2011	5.00
2012	4.25
2013	4.00
2014	4.50
2015-2016	4.00
2017-2018	3.75

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D. Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the "Issue Year" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Issue Year	Guarantee Duration	A	B	C
1982	5 years or less	13.25%	10.50%	9.25%
	More than 5 years, up to 10	12.50	10.50	9.25
	More than 10 years, up to 20	8.50	7.25	6.75
	More than 20 years	6.75	6.00	6.00
1983	5 years or less	11.25%	9.25%	8.25%
	More than 5 years, up to 10	10.75	9.25	8.25
	More than 10 years, up to 20	8.25	7.00	6.75
	More than 20 years	6.75	5.75	5.75
1984	5 years or less	11.25%	9.25%	8.00%
	More than 5 years, up to 10	10.75	9.25	8.00
	More than 10 years, up to 20	8.25	7.00	6.75
	More than 20 years	6.75	5.75	5.75
1985	5 years or less	11.00%	9.00%	8.00%
	More than 5 years, up to 10	10.50	9.00	8.00
	More than 10 years, up to 20	8.25	7.00	6.50
	More than 20 years	6.50	5.75	5.75
1986	5 years or less	9.25%	7.75%	6.75%
	More than 5 years, up to 10	8.75	7.75	6.75
	More than 10 years, up to 20	7.50	6.50	6.00
	More than 20 years	6.00	5.50	5.50
1987	5 years or less	8.00%	6.75%	6.25%
	More than 5 years, up to 10	7.75	6.75	6.25
	More than 10 years, up to 20	7.00	6.00	5.75
	More than 20 years	5.75	5.25	5.25
1988	5 years or less	8.75%	7.50%	6.75%
	More than 5 years, up to 10	8.50	7.50	6.75
	More than 10 years, up to 20	7.25	6.25	6.00
	More than 20 years	6.00	5.25	5.25
1989	5 years or less	8.75%	7.25%	6.50%
	More than 5 years, up to 10	8.25	7.25	6.50
	More than 10 years, up to 20	7.25	6.25	6.00
	More than 20 years	6.00	5.25	5.25
1990	5 years or less	8.25%	7.00%	6.25%
	More than 5 years, up to 10	8.00	7.00	6.25
	More than 10 years, up to 20	7.00	6.25	5.75
	More than 20 years	5.75	5.25	5.25

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D (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the "Issue Year" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Issue Year	Guarantee Duration	A	B	C
1991	5 years or less	8.25%	7.00%	6.25%
	More than 5 years, up to 10	8.00	7.00	6.25
	More than 10 years, up to 20	7.00	6.25	5.75
	More than 20 years	5.75	5.25	5.25
1992	5 years or less	7.75%	6.50%	6.00%
	More than 5 years, up to 10	7.50	6.50	6.00
	More than 10 years, up to 20	6.75	6.00	5.75
	More than 20 years	5.75	5.00	5.00
1993	5 years or less	7.00%	6.00%	5.50%
	More than 5 years, up to 10	6.75	6.00	5.50
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	4.75	4.75
1994	5 years or less	7.50%	5.75%	5.25%
	More than 5 years, up to 10	6.50	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.00
	More than 20 years	5.00	4.50	4.50
1995	5 years or less	7.25%	6.25%	5.75%
	More than 5 years, up to 10	7.00	6.25	5.75
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	4.75	4.75
1996	5 years or less	6.75%	5.75%	5.25%
	More than 5 years, up to 10	6.50	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.00
	More than 20 years	5.00	4.50	4.50
1997	5 years or less	6.75%	5.75%	5.25%
	More than 5 years, up to 10	6.50	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.25
	More than 20 years	5.25	4.75	4.75
1998	5 years or less	6.25%	5.50%	5.00%
	More than 5 years, up to 10	6.00	5.50	5.00
	More than 10 years, up to 20	5.75	5.00	4.75
	More than 20 years	4.75	4.50	4.50
1999	5 years or less	6.25%	5.50%	5.00%
	More than 5 years, up to 10	6.00	5.50	5.00
	More than 10 years, up to 20	5.50	5.00	4.75
	More than 20 years	4.75	4.50	4.50

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D (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the "Issue Year" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Issue Year	Guarantee Duration	A	B	C
2000	5 years or less	7.00%	6.00%	5.50%
	More than 5 years, up to 10	6.75	6.00	5.50
	More than 10 years, up to 20	5.75	5.25	5.00
	More than 20 years	5.00	4.50	4.50
2001	5 years or less	6.75%	5.75%	5.25%
	More than 5 years, up to 10	6.50	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.00
	More than 20 years	5.00	4.50	4.50
2002	5 years or less	6.50%	5.75%	5.25%
	More than 5 years, up to 10	6.25	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.00
	More than 20 years	5.00	4.50	4.50
2003	5 years or less	6.00%	5.25%	4.75%
	More than 5 years, up to 10	5.75	5.25	4.75
	More than 10 years, up to 20	5.50	4.75	4.75
	More than 20 years	4.75	4.25	4.25
2004	5 years or less	5.50%	5.00%	4.75%
	More than 5 years, up to 10	5.50	5.00	4.75
	More than 10 years, up to 20	5.00	4.75	4.50
	More than 20 years	4.50	4.25	4.25
2005	5 years or less	5.25%	4.75%	4.50%
	More than 5 years, up to 10	5.00	4.75	4.50
	More than 10 years, up to 20	4.75	4.50	4.25
	More than 20 years	4.25	4.00	4.00
2006	5 years or less	5.25%	4.75%	4.50%
	More than 5 years, up to 10	5.25	4.75	4.50
	More than 10 years, up to 20	4.75	4.50	4.25
	More than 20 years	4.25	4.00	4.00
2007	5 years or less	5.50%	4.75%	4.50%
	More than 5 years, up to 10	5.25	4.75	4.50
	More than 10 years, up to 20	4.75	4.50	4.25
	More than 20 years	4.25	4.00	4.00
2008	5 years or less	5.50%	5.00%	4.50%
	More than 5 years, up to 10	5.50	5.00	4.50
	More than 10 years, up to 20	5.00	4.50	4.25
	More than 20 years	4.25	4.00	4.00

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D (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the "Issue Year" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Issue Year	Guarantee Duration	A	B	C
2009	5 years or less	6.00%	5.25%	5.00%
	More than 5 years, up to 10	5.75	5.25	5.00
	More than 10 years, up to 20	5.25	4.75	4.50
	More than 20 years	4.50	4.25	4.25
2010	5 years or less	5.25%	4.75%	4.25%
	More than 5 years, up to 10	5.00	4.75	4.25
	More than 10 years, up to 20	4.75	4.25	4.25
	More than 20 years	4.25	4.00	4.00
2011	5 years or less	5.00%	4.50%	4.25%
	More than 5 years, up to 10	4.75	4.50	4.25
	More than 10 years, up to 20	4.50	4.25	4.00
	More than 20 years	4.00	3.75	3.75
2012	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.25	4.00	3.75
	More than 10 years, up to 20	4.00	3.75	3.75
	More than 20 years	3.75	3.50	3.50
2013	5 years or less	4.00%	3.75%	3.50%
	More than 5 years, up to 10	3.75	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.50	3.50
2014	5 years or less	4.50%	4.00%	3.75%
	More than 5 years, up to 10	4.25	4.00	3.75
	More than 10 years, up to 20	4.00	3.75	3.75
2015	5 years or less	4.00%	3.75%	3.50%
	More than 5 years, up to 10	4.00	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.50	3.50
2016	5 years or less	4.00%	3.75%	3.75%
	More than 5 years, up to 10	4.00	3.75	3.75
	More than 10 years, up to 20	4.00	3.75	3.75
	More than 20 years	3.75	3.50	3.50

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2017	5 years or less	3.75%	3.75%	3.50%
	More than 5 years, up to 10	3.75	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.25	3.25
2018	5 years or less	3.75%	3.75%	3.50%
	More than 5 years, up to 10	3.75	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.25	3.25

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E. Other Annuities and Guaranteed Interest Contracts, with cash settlement options but without interest rate guarantees on future considerations, valued on the "Issue Year" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Issue Year	Guarantee Duration	A	B	C
1982	5 years or less	13.75%	11.25%	10.00%
	More than 5 years, up to 10	13.25	11.25	10.00
	More than 10 years, up to 20	8.75	7.5[illegible]	7.25
	More than 20 years	7.25	6.[illegible]5	6.25
1983	5 years or less	11.75%	9.[illegible]5%	8.75%
	More than 5 years, up to 10	11.25	9.75	8.75
	More than 10 years, up to 20	8.75	7.50	7.00
	More than 20 years	7.00	6.25	6.25
1984	5 years or less	11.[illegible]%	9.75%	8.50%
	More than 5 years, up to 10	11.25	9.75	8.50
	More than 10 years, up to 20	8.7[illegible]	7.50	7.00
	More than 20 years	7.00	6.25	6.25
1985	5 years or less	1[illegible].50%	9.50%	8.50%
	More than 5 years, up to 10	11.00	9.50	8.50
	More than 10 years, up to 20	8.50	7.50	7.00
	More than 20 years	7.00	6.25	6.25
1986	5 years or less	9.50%	8.00%	7.25%
	More than 5 years, up to 1[illegible]	9.25	8.00	7.25
	More than 10 year[illegible], up to 20	7.75	6.75	6.50
	More than 20 yea[illegible]	6.50	5.75	5.75
1987	5 years or le[illegible]s	8.50%	7.25%	6.50%
	More t[illegible] 5 [illegible]ars, up to 10	8.00	7.25	6.50
	More than [illegible]0 years, up to 20	7.25	6.50	6.00
	More than 20 years	6.00	5.50	5.50
1988	[illegible]ears or less	9.25%	7.75%	7.00%
	Mor[illegible] than 5 years, up to 10	8.75	7.75	7.00
	Mo[illegible] than 10 years, up to 20	7.50	6.50	6.25
	More than 20 years	6.25	5.75	5.75
1989	5 years or less	9.00%	7.50%	7.00%
	More than 5 years, up to 10	8.75	7.50	7.00
	More than 10 years, up to 20	7.50	6.50	6.25
	More than 20 years	6.25	5.50	5.50
1990	5 years or less	8.50%	7.25%	6.50%
	More than 5 years, up to 10	8.25	7.25	6.50
	More than 10 years, up to 20	7.50	6.50	6.25
	More than 20 years	6.25	5.50	5.50

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E (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options but without interest rate guarantees on future considerations, valued on the "Issue Year" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Issue Year	Guarantee Duration	A	B	C
1991	5 years or less	8.75%	7.25%	6.75%
	More than 5 years, up to 10	8.25	7.25	6.75
	More than 10 years, up to 20	7.50	6.50	6.25
	More than 20 years	6.25	5.50	5.50
1992	5 years or less	8.00%	6.75%	6.25%
	More than 5 years, up to 10	7.75	6.75	6.25
	More than 10 years, up to 20	7.00	6.25	6.00
	More than 20 years	6.00	5.25	5.25
1993	5 years or less	7.25%	6.25%	5.75%
	More than 5 years, up to 10	7.00	6.25	5.75
	More than 10 years, up to 20	6.50	5.75	5.50
	More than 20 years	5.50	5.00	5.00
1994	5 years or less	6.75%	6.00%	5.50%
	More than 5 years, up to 10	6.50	6.00	5.50
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	4.75	4.75
1995	5 years or less	7.50%	6.50%	6.00%
	More than 5 years, up to 10	7.25	6.50	6.00
	More than 10 years, up to 20	6.50	5.75	5.50
	More than 20 years	5.50	5.00	5.00
1996	5 years or less	6.75%	6.00%	5.50%
	More than 5 years, up to 10	6.75	6.00	5.50
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	4.75	4.75
1997	5 years or less	7.00%	6.00%	5.50%
	More than 5 years, up to 10	6.75	6.00	5.50
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	5.00	5.00
1998	5 years or less	6.50%	5.75%	5.25%
	More than 5 years, up to 10	6.25	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.00
	More than 20 years	5.00	4.75	4.75
1999	5 years or less	6.25%	5.50%	5.25%
	More than 5 years, up to 10	6.25	5.50	5.25
	More than 10 years, up to 20	5.75	5.25	5.00
	More than 20 years	5.00	4.50	4.50

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E (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options but without interest rate guarantees on future considerations, valued on the "Issue Year" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Issue Year	Guarantee Duration	A	B	C
2000	5 years or less	7.25%	6.25%	5.75%
	More than 5 years, up to 10	7.00	6.25	5.75
	More than 10 years, up to 20	6.00	5.50	5.25
	More than 20 years	5.25	4.75	4.75
2001	5 years or less	7.00%	6.00%	5.50%
	More than 5 years, up to 10	6.75	6.00	5.50
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	4.75	4.75
2002	5 years or less	6.75%	6.00%	5.50%
	More than 5 years, up to 10	6.50	6.00	5.50
	More than 10 years, up to 20	6.00	5.50	5.25
	More than 20 years	5.25	4.75	4.75
2003	5 years or less	6.25%	5.50%	5.00%
	More than 5 years, up to 10	6.00	5.50	5.00
	More than 10 years, up to 20	5.50	5.00	4.75
	More than 20 years	4.75	4.50	4.50
2004	5 years or less	5.75%	5.00%	4.75%
	More than 5 years, up to 10	5.50	5.00	4.75
	More than 10 years, up to 20	5.25	4.75	4.75
	More than 20 years	4.75	4.25	4.25
2005	5 years or less	5.25%	4.75%	4.50%
	More than 5 years, up to 10	5.25	4.75	4.50
	More than 10 years, up to 20	5.00	4.50	4.50
	More than 20 years	4.50	4.00	4.00
2006	5 years or less	5.50%	4.75%	4.50%
	More than 5 years, up to 10	5.25	4.75	4.50
	More than 10 years, up to 20	5.00	4.50	4.50
	More than 20 years	4.50	4.25	4.25
2007	5 years or less	5.50%	5.00%	4.75%
	More than 5 years, up to 10	5.50	5.00	4.75
	More than 10 years, up to 20	5.00	4.50	4.50
	More than 20 years	4.50	4.25	4.25
2008	5 years or less	5.75%	5.00%	4.75%
	More than 5 years, up to 10	5.50	5.00	4.75
	More than 10 years, up to 20	5.00	4.75	4.50
	More than 20 years	4.50	4.25	4.25

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E (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options but without interest rate guarantees on future considerations, valued on the "Issue Year" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Issue Year	Guarantee Duration	A	B	C
2009	5 years or less	6.25%	5.50%	5.00%
	More than 5 years, up to 10	6.00	5.50	5.00
	More than 10 years, up to 20	5.25	4.75	4.75
	More than 20 years	4.75	4.25	4.25
2010	5 years or less	5.25%	4.75%	4.50%
	More than 5 years, up to 10	5.25	4.75	4.50
	More than 10 years, up to 20	5.00	4.50	4.25
	More than 20 years	4.25	4.00	4.00
2011	5 years or less	5.00%	4.50%	4.25%
	More than 5 years, up to 10	5.00	4.50	4.25
	More than 10 years, up to 20	4.75	4.25	4.25
	More than 20 years	4.25	4.00	4.00
2012	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.25	4.00	3.75
	More than 10 years, up to 20	4.00	3.75	3.75
	More than 20 years	3.75	3.50	3.50
2013	5 years or less	4.00%	3.75%	3.75%
	More than 5 years, up to 10	4.00	3.75	3.75
	More than 10 years, up to 20	3.75	3.75	3.50
	More than 20 years	3.50	3.50	3.50
2014	5 years or less	4.50%	4.00%	4.00%
	More than 5 years, up to 10	4.50	4.00	4.00
	More than 10 years, up to 20	4.00	3.75	3.75
	More than 20 years	3.75	3.50	3.50
2015	5 years or less	4.00%	3.75%	3.75%
	More than 5 years, up to 10	4.00	3.75	3.75
	More than 10 years, up to 20	3.75	3.75	3.50
	More than 20 years	3.50	3.50	3.50
2016	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.00	4.00	3.75
	More than 10 years, up to 20	4.00	3.75	3.75
	More than 20 years	3.75	3.50	3.50

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E (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options but without interest rate guarantees on future considerations, valued on the "Issue Year" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Issue Year	Guarantee Duration	A	B	C
2017	5 years or less	4.00%	3.75%	3.50%
	More than 5 years, up to 10	3.75	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.50	3.50
2018	5 years or less	4.00%	3.75%	3.50%
	More than 5 years, up to 10	3.75	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.50	3.50

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F. Other Annuities and Guaranteed Interest Contracts, without cash settlement options, valued on the "Issue Year" basis.

Issue Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate Plan Type A
1982	5 years or less	13.25%
	More than 5 years, up to 10	12.50
	More than 10 years, up to 20	11.25
	More than 20 years	8.75
1983	5 years or less	11.25%
	More than 5 years, up to 10	10.75
	More than 10 years, up to 20	9.75
	More than 20 years	7.75
1984	5 years or less	11.25%
	More than 5 years, up to 10	10.75
	More than 10 years, up to 20	9.75
	More than 20 years	7.50
1985	5 years or less	11.00%
	More than 5 years, up to 10	10.50
	More than 10 years, up to 20	9.50
	More than 20 years	7.50
1986	5 years or less	9.25%
	More than 5 years, up to 10	8.75
	More than 10 years, up to 20	8.00
	More than 20 years	6.50
1987	5 years or less	8.00%
	More than 5 years, up to 10	7.75
	More than 10 years, up to 20	7.25
	More than 20 years	6.00
1988	5 years or less	8.75%
	More than 5 years, up to 10	8.50
	More than 10 years, up to 20	7.75
	More than 20 years	6.25
1989	5 years or less	8.75%
	More than 5 years, up to 10	8.25
	More than 10 years, up to 20	7.50
	More than 20 years	6.25
1990	5 years or less	8.25%
	More than 5 years, up to 10	8.00
	More than 10 years, up to 20	7.25
	More than 20 years	6.00

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F (cont.) Other Annuities and Guaranteed Interest Contracts, without cash settlement options, valued on the "Issue Year" basis.

Issue Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate Plan Type A
1991	5 years or less	8.25%
	More than 5 years, up to 10	8.00
	More than 10 years, up to 20	7.25
	More than 20 years	6.50
1992	5 years or less	7.75%
	More than 5 years, up to 10	7.50
	More than 10 years, up to 20	6.75
	More than 20 years	5.75
1993	5 years or less	7.00%
	More than 5 years, up to 10	6.75
	More than 10 years, up to 20	6.25
	More than 20 years	5.25
1994	5 years or less	6.50%
	More than 5 years, up to 10	6.50
	More than 10 years, up to 20	6.00
	More than 20 years	5.00
1995	5 years or less	7.25%
	More than 5 years, up to 10	7.00
	More than 10 years, up to 20	6.50
	More than 20 years	5.50
1996	5 years or less	6.75%
	More than 5 years, up to 10	6.50
	More than 10 years, up to 20	6.00
	More than 20 years	5.00
1997	5 years or less	6.75%
	More than 5 years, up to 10	6.50
	More than 10 years, up to 20	6.00
	More than 20 years	5.25
1998	5 years or less	6.25%
	More than 5 years, up to 10	6.00
	More than 10 years, up to 20	5.75
	More than 20 years	4.75
1999	5 years or less	6.25%
	More than 5 years, up to 10	6.00
	More than 10 years, up to 20	5.50
	More than 20 years	4.75

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F (cont.) Other Annuities and Guaranteed Interest Contracts, without cash settlement options, valued on the "Issue Year" basis.

Issue Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate Plan Type A
2000	5 years or less	7.00%
	More than 5 years, up to 10	6.75
	More than 10 years, up to 20	6.25
	More than 20 years	5.25
2001	5 years or less	6.75%
	More than 5 years, up to 10	6.50
	More than 10 years, up to 20	6.00
	More than 20 years	5.00
2002	5 years or less	6.50%
	More than 5 years, up to 10	6.25
	More than 10 years, up to 20	6.00
	More than 20 years	5.00
2003	5 years or less	6.00%
	More than 5 years, up to 10	5.75
	More than 10 years, up to 20	5.50
	More than 20 years	4.75
2004	5 years or less	5.50%
	More than 5 years, up to 10	5.50
	More than 10 years, up to 20	5.00
	More than 20 years	4.50
2005	5 years or less	5.25%
	More than 5 years, up to 10	5.00
	More than 10 years, up to 20	4.75
	More than 20 years	4.25
2006	5 years or less	5.25%
	More than 5 years, up to 10	5.25
	More than 10 years, up to 20	4.75
	More than 20 years	4.25
2007	5 years or less	5.50%
	More than 5 years, up to 10	5.25
	More than 10 years, up to 20	5.00
	More than 20 years	4.25
2008	5 years or less	5.50%
	More than 5 years, up to 10	5.50
	More than 10 years, up to 20	5.00
	More than 20 years	4.50

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F (cont.) Other Annuities and Guaranteed Interest Contracts, without cash settlement options, valued on the "Issue Year" basis.

Issue Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate Plan Type A
2009	5 years or less	6.00%
	More than 5 years, up to 10	5.75
	More than 10 years, up to 20	5.[illegible]0
	More than 20 years	4.[illegible]5
2010	5 years or less	5.25%
	More than 5 years, up to 10	5.00
	More than 10 years, up to 20	4.75
	More than 20 years	4.25
2011	5 years or less	5.00%
	More than 5 years, up to 10	4.75
	More than 10 years, up to 20	4.50
	More than 20 years	4.00
2012	5 years or less	4.25%
	More than 5 years, up to 10	4.25
	More than 10 years, up to 20	4.00
	More than 20 years	3.75
2013	5 years or less	4.00%
	More than 5 years, up to 10	3.75
	More than 10 years, up to 20	3.75
	More than 20 years	3.50
2014	5 years or less	4.50%
	More than 5 years, up to 10	4.25
	More than 10 years, up to 20	4.00
	More than 20 years	3.75
2015	5 years or less	4.00%
	More than 5 years, up to 10	4.00
	More than 10 years, up to 20	3.75
	More than 20 years	3.50
2016	5 years or less	4.00%
	More than 5 years, up to 10	4.00
	More than 10 years, up to 20	4.00
	More than 20 years	3.75
2017	5 years or less	3.75%
	More than 5 years, up to 10	3.75
	More than 10 years, up to 20	3.75
	More than 20 years	3.50

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F (cont.) Other Annuities and Guaranteed Interest Contracts, without cash settlement options, valued on the "Issue Year" basis.

Issue Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate Plan Type A
2018	5 years or less	3.75%
	More than 5 years, up to 10	3.75
	More than 10 years, up to 20	3.75
	More than 20 years	3.50

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G. Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the "Change-in-Fund" basis.

Change in Fund During Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate Plan Type A	B	C
1982	5 years or less	15.00%	13.75%	10.00%
	More than 5 years, up to 10	14.50	13.75	10.00
	More than 10 years, up to 20	13.25	12.5[illegible]	9.25
	More than 20 years	10.50	10.[illegible]0	8.00
1983	5 years or less	12.75%	11.[illegible]5%	8.75%
	More than 5 years, up to 10	12.25	11.75	8.75
	More than 10 years, up to 20	11.25	10.75	8.25
	More than 20 years	9.25	9.25	7.25
1984	5 years or less	12.[illegible]%	11.75%	8.50%
	More than 5 years, up to 10	12.25	11.75	8.50
	More than 10 years, up to 20	11.[illegible]	10.75	8.00
	More than 20 years	9.25	9.25	7.00
1985	5 years or less	12.50%	11.50%	8.50%
	More than 5 years, up to 10	12.00	11.50	8.50
	More than 10 years, up to 20	11.00	10.50	8.00
	More than 20 years	9.00	9.00	7.00
1986	5 years or less	10.25%	9.50%	7.25%
	More than 5 years, up to 1[illegible]	10.00	9.50	7.25
	More than 10 yea[illegible], up to 20	9.25	8.75	6.75
	More than 20 yea[illegible]	7.75	7.75	6.00
1987	5 year[illegible] or l[illegible]ss	9.00%	8.50%	6.50%
	More t[illegible]1 5 [illegible]ars, up to 10	8.75	8.50	6.50
	More than [illegible]0 years, up to 20	8.00	7.75	6.25
	More than 20 years	6.75	6.75	5.50
1988	[illegible]ears or less	10.00%	9.25%	7.00%
	More than 5 years, up to 10	9.50	9.25	7.00
	More than 10 years, up to 20	8.75	8.50	6.75
	More than 20 years	7.50	7.50	6.00
1989	5 years or less	9.75%	9.00%	7.00%
	More than 5 years, up to 10	9.50	9.00	7.00
	More than 10 years, up to 20	8.75	8.25	6.50
	More than 20 years	7.25	7.25	5.75
1990	5 years or less	9.25%	8.50%	6.50%
	More than 5 years, up to 10	8.75	8.50	6.50
	More than 10 years, up to 20	8.25	8.00	6.25
	More than 20 years	7.00	7.00	5.50

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G (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the "Change-in-Fund" basis.

Change in Fund During Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate Plan Type A	B	C
1991	5 years or less	9.25%	8.75%	6.75%
	More than 5 years, up to 10	9.00	8.75	6.[illegible]
	More than 10 years, up to 20	8.25	8.00	6.25
	More than 20 years	7.00	7.00	5.75
1992	5 years or less	8.50%	8.00%	6.25%
	More than 5 years, up to 10	8.25	8.00	6.25
	More than 10 years, up to 20	7.75	7.50	6.00
	More than 20 years	6.50	6.[illegible]	5.25
1993	5 years or less	7.75%	7.25%	5.75%
	More than 5 years, up to 10	7.50	7.25	5.75
	More than 10 years, up to 20	7.00	6.75	5.50
	More than 20 years	6.[illegible]	6.00	5.00
1994	5 years or less	7.25%	6.75%	5.50%
	More than 5 years, up to 10	7.0[illegible]	6.75	5.50
	More than 10 years, up to 20	6.50	6.50	5.25
	More than 20 years	5.75	5.75	4.75
1995	5 years or less	8.25%	7.50%	6.00%
	More than 5 years, up to 1[illegible]	8.00	7.50	6.00
	More than 10 years, up to [illegible]0	7.25	7.00	5.75
	More than 20 years	6.25	6.25	5.25
1996	5 years or less	7.25%	6.75%	5.50%
	More than 5 years, up to 10	7.00	6.75	5.50
	More than 10 years, up to 20	6.75	6.50	5.25
	More than 20 years	5.75	5.75	4.75
1997	5 years or less	7.50%	7.00%	5.50%
	More than 5 years, up to 10	7.25	7.00	5.50
	More than 10 years, up to 20	6.75	6.50	5.25
	More than 20 years	5.75	5.75	5.00
1998	5 years or less	7.00%	6.50%	5.25%
	More than 5 years, up to 10	6.75	6.50	5.25
	More than 10 years, up to 20	6.25	6.00	5.00
	More than 20 years	5.50	5.50	4.75

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G (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the "Change-in-Fund" basis.

Change in Fund During Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate Plan Type A	B	C
1999	5 years or less	6.75%	6.25%	5.25%
	More than 5 years, up to 10	6.50	6.25	5.25
	More than 10 years, up to 20	6.25	6.00	5.00
	More than 20 years	5.50	5.50	4.50
2000	5 years or less	7.75%	7.25%	5.75%
	More than 5 years, up to 10	7.50	7.25	5.75
	More than 10 years, up to 20	7.00	6.75	5.50
	More than 20 years	6.00	6.00	5.00
2001	5 years or less	7.25%	7.00%	5.50%
	More than 5 years, up to 10	7.25	7.00	5.50
	More than 10 years, up to 20	6.75	6.50	5.25
	More than 20 years	5.75	5.75	5.00
2002	5 years or less	7.25%	6.75%	5.50%
	More than 5 years, up to 10	7.00	6.75	5.50
	More than 10 years, up to 20	6.50	6.25	5.25
	More than 20 years	5.75	5.75	4.75
2003	5 years or less	6.50%	6.25%	5.00%
	More than 5 years, up to 10	6.25	6.25	5.00
	More than 10 years, up to 20	6.00	5.75	4.75
	More than 20 years	5.25	5.25	4.50
2004	5 years or less	6.00%	5.75%	4.75%
	More than 5 years, up to 10	6.00	5.75	4.75
	More than 10 years, up to 20	5.50	5.50	4.75
	More than 20 years	5.00	5.00	4.25
2005	5 years or less	5.75%	5.25%	4.50%
	More than 5 years, up to 10	5.50	5.25	4.50
	More than 10 years, up to 20	5.25	5.00	4.50
	More than 20 years	4.75	4.75	4.00
2006	5 years or less	5.75%	5.50%	4.50%
	More than 5 years, up to 10	5.50	5.50	4.50
	More than 10 years, up to 20	5.25	5.25	4.50
	More than 20 years	4.75	4.75	4.25
2007	5 years or less	5.75%	5.50%	4.75%
	More than 5 years, up to 10	5.75	5.50	4.75
	More than 10 years, up to 20	5.50	5.25	4.50
	More than 20 years	4.75	4.75	4.25

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G (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the "Change-in-Fund" basis.

Change in Fund During Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate Plan Type A	B	C
2008	5 years or less	6.00%	5.75%	4.75%
	More than 5 years, up to 10	6.00	5.75	4.75
	More than 10 years, up to 20	5.50	5.50	4.50
	More than 20 years	5.00	5.00	4.25
2009	5 years or less	6.50%	6.25%	5.00%
	More than 5 years, up to 10	6.50	6.25	5.00
	More than 10 years, up to 20	6.00	5.75	5.00
	More than 20 years	5.25	5.25	4.50
2010	5 years or less	5.50%	5.25%	4.50%
	More than 5 years, up to 10	5.50	5.25	4.50
	More than 10 years, up to 20	5.25	5.00	4.25
	More than 20 years	4.75	4.75	4.00
2011	5 years or less	5.25%	5.00%	4.25%
	More than 5 years, up to 10	5.25	5.00	4.25
	More than 10 years, up to 20	5.00	4.75	4.25
	More than 20 years	4.50	4.50	4.00
2012	5 years or less	4.50%	4.25%	3.75%
	More than 5 years, up to 10	4.50	4.25	3.75
	More than 10 years, up to 20	4.25	4.25	3.75
	More than 20 years	4.00	4.00	3.50
2013	5 years or less	4.00%	4.00%	3.75%
	More than 5 years, up to 10	4.00	4.00	3.75
	More than 10 years, up to 20	4.00	3.75	3.50
	More than 20 years	3.75	3.75	3.50
2014	5 years or less	4.75%	4.50%	4.00%
	More than 5 years, up to 10	4.50	4.50	4.0
	More than 10 years, up to 20	4.50	4.25	3.75
	More than 20 years	4.00	4.00	3.75
2015	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.00	4.00	3.75
	More than 10 years, up to 20	4.00	4.00	3.50
	More than 20 years	3.75	3.75	3.50
2016	5 years or less	4.25%	4.25%	3.75%
	More than 5 years, up to 10	4.25	4.25	3.75
	More than 10 years, up to 20	4.00	4.00	3.75
	More than 20 years	3.75	3.75	3.50

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G (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the "Change-in-Fund" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Change in Fund During Year	Guarantee Duration	A	B	C
2017	5 years or less	4.00%	4.00%	3.50%
	More than 5 years, less than 10	4.00	4.00	3.50
	More than 10 years, less than 20	3.75	3.75	3.50
	More than 20 years	3.75	3.75	3.50
2018	5 years or less	4.00%	4.00%	3.50%
	More than 5 years, less than 10	4.00	4.00	3.50
	More than 10 years, less than 20	3.75	3.75	3.50
	More than 20 years	3.75	3.75	3.50

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H. Other Annuities and Guaranteed Interest Contracts, with cash settlement options and without interest rate guarantees on future considerations, valued on the "Change-in-Fund" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Change in Fund During Year	Guarantee Duration	A	B	C
1982	5 years or less	15.75%	14.50%	10.50%
	More than 5 years, up to 10	15.00	14.50	10.50
	More than 10 years, up to 20	13.75	13.25	10.50
	More than 20 years	11.25	11.25	8.75
1983	5 years or less	13.50%	12.25%	9.25%
	More than 5 years, up to 10	12.75	12.25	9.25
	More than 10 years, up to 20	11.75	11.25	8.75
	More than 20 years	9.75	9.75	7.75
1984	5 years or less	13.25%	12.25%	9.25%
	More than 5 years, up to 10	12.75	12.25	9.25
	More than 10 years, up to 20	11.75	11.25	8.50
	More than 20 years	9.75	9.75	7.50
1985	5 years or less	13.00%	12.00%	9.00%
	More than 5 years, up to 10	12.50	12.00	9.00
	More than 10 years, up to 20	11.50	11.00	8.50
	More than 20 years	9.50	9.50	7.50
1986	5 years or less	10.75%	10.00%	7.75%
	More than 5 years, up to 10	10.25	10.00	7.75
	More than 10 years, up to 20	9.50	9.25	7.25
	More than 20 years	8.00	8.00	6.50
1987	5 years or less	9.50%	8.75%	6.75%
	More than 5 years, up to 10	9.00	8.75	6.75
	More than 10 years, up to 20	8.50	8.00	6.50
	More than 20 years	7.25	7.25	6.00
1988	5 years or less	10.25%	9.50%	7.50%
	More than 5 years, up to 10	10.00	9.50	7.50
	More than 10 years, up to 20	9.25	8.75	7.00
	More than 20 years	7.75	7.75	6.25
1989	5 years or less	10.00%	9.50%	7.25%
	More than 5 years, up to 10	9.75	9.50	7.25
	More than 10 years, up to 20	9.00	8.75	7.00
	More than 20 years	7.50	7.50	6.25

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H (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and without interest rate guarantees on future considerations, valued on the "Change-in-Fund" basis.

Change in Fund During Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate Plan Type A	B	C
1990	5 years or less	9.50%	8.75%	7.00%
	More than 5 years, up to 10	9.25	8.75	7.00
	More than 10 years, up to 20	8.50	8.25	6.50
	More than 20 years	7.25	7.25	6.00
1991	5 years or less	9.75%	9.00%	7.00%
	More than 5 years, up to 10	9.25	9.00	7.00
	More than 10 years, up to 20	8.75	8.25	6.75
	More than 20 years	7.25	7.25	6.00
1992	5 years or less	9.00%	8.25%	6.50%
	More than 5 years, up to 10	8.50	8.25	6.50
	More than 10 years, up to 20	8.00	7.75	6.25
	More than 20 years	6.75	6.75	5.75
1993	5 years or less	8.25%	7.50%	6.00%
	More than 5 years, up to 10	7.75	7.50	6.00
	More than 10 years, up to 20	7.25	7.00	5.75
	More than 20 years	6.25	6.25	5.25
1994	5 years or less	7.50%	7.00%	5.75%
	More than 5 years, up to 10	7.25	7.00	5.75
	More than 10 years, up to 20	6.75	6.50	5.50
	More than 20 years	6.00	6.00	5.00
1995	5 years or less	8.50%	8.00%	6.25%
	More than 5 years, up to 10	8.25	8.00	6.25
	More than 10 years, up to 20	7.50	7.25	6.00
	More than 20 years	6.50	6.50	5.50
1996	5 years or less	7.50%	7.00%	5.75%
	More than 5 years, up to 10	7.25	7.00	5.75
	More than 10 years, up to 20	6.75	6.75	5.50
	More than 20 years	6.00	6.00	5.00
1997	5 years or less	7.75%	7.25%	5.75%
	More than 5 years, up to 10	7.50	7.25	5.75
	More than 10 years, up to 20	7.00	6.75	5.50
	More than 20 years	6.00	6.00	5.25
1998	5 years or less	7.00%	6.75%	5.50%
	More than 5 years, up to 10	7.00	6.75	5.50
	More than 10 years, up to 20	6.50	6.25	5.25
	More than 20 years	5.75	5.75	4.75

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H (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and without interest rate guarantees on future considerations, valued on the "Change-in-Fund" basis.

Change in Fund During Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate Plan Type A	B	C
1999	5 years or less	7.00%	6.50%	5.50%
	More than 5 years, up to 10	6.75	6.50	5.50
	More than 10 years, up to 20	6.25	6.25	5.25
	More than 20 years	5.50	5.50	4.75
2000	5 years or less	8.00%	7.50%	6.00%
	More than 5 years, up to 10	7.75	7.50	6.00
	More than 10 years, up to 20	7.25	7.00	5.75
	More than 20 years	6.25	6.25	5.25
2001	5 years or less	7.75%	7.25%	5.75%
	More than 5 years, up to 10	7.50	7.25	5.75
	More than 10 years, up to 20	7.00	6.75	5.50
	More than 20 years	6.00	6.00	5.00
2002	5 years or less	7.50%	7.00%	5.75%
	More than 5 years, up to 10	7.25	7.00	5.75
	More than 10 years, up to 20	6.75	6.50	5.50
	More than 20 years	6.00	6.00	5.00
2003	5 years or less	6.75%	6.25%	5.25%
	More than 5 years, up to 10	6.50	6.25	5.25
	More than 10 years, up to 20	6.25	6.00	5.00
	More than 20 years	5.50	5.50	4.75
2004	5 years or less	6.25%	6.00%	5.00%
	More than 5 years, up to 10	6.00	6.00	5.00
	More than 10 years, up to 20	5.75	5.50	4.75
	More than 20 years	5.00	5.00	4.50
2005	5 years or less	5.75%	5.50%	4.75%
	More than 5 years, up to 10	5.75	5.50	4.75
	More than 10 years, up to 20	5.25	5.25	4.50
	More than 20 years	4.75	4.75	4.25
2006	5 years or less	5.75%	5.50%	4.75%
	More than 5 years, up to 10	5.75	5.50	4.75
	More than 10 years, up to 20	5.50	5.25	4.50
	More than 20 years	4.75	4.75	4.25
2007	5 years or less	6.00%	5.75%	4.75%
	More than 5 years, up to 10	5.75	5.75	4.75
	More than 10 years, up to 20	5.50	5.50	4.75
	More than 20 years	5.00	5.00	4.25

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H (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and without interest rate guarantees on future considerations, valued on the "Change-in-Fund" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Change in Fund During Year	Guarantee Duration	A	B	C
2008	5 years or less	6.25%	6.00%	5.00%
	More than 5 years, up to 10	6.00	6.00	5.00
	More than 10 years, up to 20	5.75	5.50	4.75
	More than 20 years	5.00	5.00	4.50
2009	5 years or less	6.75%	6.50%	5.25%
	More than 5 years, up to 10	6.50	6.50	5.25
	More than 10 years, up to 20	6.25	6.00	5.00
	More than 20 years	5.50	5.50	4.75
2010	5 years or less	5.75%	5.50%	4.75%
	More than 5 years, up to 10	5.50	5.50	4.75
	More than 10 years, up to 20	5.25	5.25	4.50
	More than 20 years	4.75	4.75	4.25
2011	5 years or less	5.25%	5.25%	4.50%
	More than 5 years, up to 10	5.25	5.25	4.50
	More than 10 years, up to 20	5.00	5.00	4.25
	More than 20 years	4.50	4.50	4.00
2012	5 years or less	4.50%	4.50%	4.00%
	More than 5 years, up to 10	4.50	4.50	4.00
	More than 10 years, up to 20	4.25	4.25	3.75
	More than 20 years	4.00	4.00	3.75
2013	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.00	4.00	3.75
	More than 10 years, up to 20	4.00	4.00	3.75
	More than 20 years	3.75	3.75	3.50
2014	5 years or less	4.75%	4.50%	4.00%
	More than 5 years, up to 10	4.75	7.50	4.00
	More than 10 years, up to 20	4.50	4.50	4.00
	More than 20 years	4.00	4.00	3.75
2015	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.25	4.00	3.75
	More than 10 years, up to 20	4.00	4.00	3.75
	More than 20 years	3.75	3.75	3.50
2016	5 years or less	4.50%	4.25%	3.75%
	More than 5 years, up to 10	4.25	4.25	3.75
	More than 10 years, up to 20	4.25	4.00	3.75
	More than 20 years	4.00	4.00	3.75

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H (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and without interest rate guarantees on future considerations, valued on the "Change-in-Fund" basis.

		Maximum Reserve Valuation Interest Rate		
		Plan Type		
Change in Fund During Year	Guarantee Duration	A	B	C
2017	5 years or less	4.00%	4.00%	3.75%
	More than 5 years, less than 10	4.00	4.00	3.75
	More than 10 years, less than 20	4.00	3.75	3.50
	More than 20 years	3.75	3.75	3.50
2018	5 years or less	4.00%	4.00%	3.75%
	More than 5 years, less than 10	4.00	4.00	3.75
	More than 10 years, less than 20	4.00	3.75	3.50
	More than 20 years	3.75	3.75	3.50

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APPENDIX

The maximum reserve valuation interest rates are based on reference interest rates, which are averages of corporate bond earnings published by Moody's Investors Service, Inc., and weighting factors prescribed by Section 4217, which defines running averages of the published monthly yield rates for 12-month and 36-month periods.

The following table shows the 12-month and 36-month yield averages for recent years:

TABLE 1

For Period Ending June 30 of Year	12-Month Running Average (1)	36-Month Running Average (2)	Lesser of Two Averages (3)
1981	13.71%	11.57%	11.57%
1982	15.70%	13.64%	13.64%
1983	13.39%	14.26%	13.39%
1984	13.22%	13.10%	13.22%
1985	13.01%	13.21%	13.01%
1986	10.75%	12.33%	10.75%
1987	9.40%	11.05%	9.40%
1988	10.32%	10.15%	10.15%
1989	10.07%	9.93%	9.93%
1990	9.52%	9.97%	9.52%
1991	9.63%	9.74%	9.63%
1992	8.88%	9.34%	8.88%
1993	8.13%	8.88%	8.13%
1994	7.52%	8.18%	7.52%
1995	8.42%	8.03%	8.03%
1996	7.55%	7.83%	7.55%
1997	7.74%	7.90%	7.74%
1998	7.11%	7.47%	7.11%
1999	6.96%	7.27%	6.96%
2000	7.93%	7.33%	7.33%
2001	7.72%	7.54%	7.54%
2002	7.44%	7.70%	7.44%
2003	6.71%	7.29%	6.71%
2004	6.26%	6.80%	6.26%

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TABLE 1
(cont.)

For Period Ending June 30 of Year	12-Month Running Average (1)	36-Month Running Average (2)	Lesser of Two Averages (3)
2005	5.78%	6.25%	5.78%
2006	5.87%	5.97%	5.87%
2007	6.00%	5.88%	5.88%
2008	6.21%	6.02%	[illegible]%
2009	6.79%	6.33%	[illegible]%
2010	5.75%	6.25%	5.75%
2011	5.37%	5.97%	5.37%
2012	4.55%	5.22%	4.55%
2013	4.15%	4.69%	4.15%
2014	4.72%	4.48%	4.48%
2015	4.19%	4.3[illegible]%	4.19%
2016	4.39%	.44%	4.19%
2017	4.05%	4.21%	4.05%
2018	4.05%	4.[illegible]7%	4.05%

The maximum nonforfeiture interest rate for Life Insurance under Section 4221(k), for a particular issue year, is equal to 125% of the maximum reserve valuation interest rate for the same issue year, rounded to the nearer 1/4%.

Should the computed maximum reserve valuation interest rate for Life Insurance (other than Single Premium Life Insurance covered in Category B on pages 2-4) for a particular issue year be different from the actual maximum reserve valuation interest rate for the next previous issue year by less than 1/2%, then the maximum reserve valuation interest rate for such particular issue year will be the same as that for such next previous issue year.

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Appendix C-2

Interpretations of the Emerging Actuarial Issues (E) Working Group

Introduction

The Emerging Actuarial Issues (E) Working Group responds to questions of application, interpretation and clarification with respect to *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38). Following an abbreviated public comment and review period of no less than seven days, the Working Group will adopt by consensus formal interpretations on issues presented before it. These interpretations will then be reported to the Financial Condition (E) Committee, which, after adopting, will direct the Financial Analysis (E) Working Group to follow the interpretations in performing its reviews of the reserving methodologies under AG 38. These interpretations will not become effective until formally adopted by the Financial Condition (E) Committee. In no event shall a consensus opinion of the Working Group supersede or otherwise conflict with AG 38.

Actuarial INT 01 ..... C-40
Actuarial INT 02 ..... C-41
Actuarial INT 03 ..... C-42
Actuarial INT 04 ..... C-43
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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 01

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. The Guideline does not seem to preclude a company from using the Alternative Reserve Methodology for yearend 2012, thus avoiding the Primary Reserve Methodology calculations, even if in prior valuations their total reserve held was not at least as great as the total reserve determined in accordance with the November 1, 2011 Life Actuarial (A) Task Force (LATF) statement. In other words, at yearend 2012 a company can switch to any alternative reserve methodology as long as the total reserve held is at least as great as the total reserve determined in accordance with the November 1, 2011 LATF statement using the required lapses and mortality. Is that a correct interpretation?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Yes. The requirements as written provide for use of either 8D(a) or 8D(b) for the 12/31/12 valuation.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 02

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. If a company uses the Alternative Reserve Methodology for yearend 2012, can they switch to the Primary Reserve Methodology for future valuations? What, if anything, should be reported in Exhibit 5A-Changes in Basis of Valuation for yearend 2012 or in future years as a result of these AG 38 revisions and any switch to the Primary Reserve Methodology or to the Alternative Reserve Methodology?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. A company, pursuant to the requirements of AG 38, 8D, may switch between the Primary Reserve Methodology and the Alternative Reserve Methodology.

3. For 12/31/12 or subsequent reserve valuations any change to or from the Primary or Alternative reserve methodologies should be reported in Exhibit 5A.

4. The company should check with their domestic state whether approval is required for any subsequent change to or from the Primary or Alternative reserve methodologies for reserves after 12/31/12.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 03

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December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. The Alternative Reserve Methodology calls for deficiency reserve mortality to be based on the VM-20 deterministic reserve mortality. Since XXX calls for segments to be based on deficiency reserve mortality this could affect segment lengths. However, at least the spirit of AG46, which came out when the 2001 CSO Preferred Risk tables came out, seems to allow for segments to continue to be based on the mortality table in use when the policy was issued. Does AG46 apply here and thus the original mortality basis for the segment lengths can continue to be used?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. The original mortality basis for determining the segment length can continue to be used. 8D is not intended to be more restrictive in determination of segments.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 04

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D

Issue / Question

1. The Guideline states "The requirements of this Section 8D apply to a company on December 31, 2012, and on any subsequent valuation date if (1) on the applicable date, the in force face amount (direct plus assumed) of universal life insurance to which this Section 8D would otherwise apply exceeds 2% of the company's face amount of individual permanent life insurance in force…". Does the referenced individual permanent life insurance exclude term insurance?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Yes. Term is excluded.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 05

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December 20, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D

Issue / Question

1. Subsection 8Da states that the Primary Reserve is determined by adding any excess of (2) over (1), where (1) is the reserve according to the methodology and assumptions used to calculate the reserves reported as of December 31, 2011. In the following three scenarios what is the basis for the determination of (1)? Assume that scenarios 1 and 2 involve universal life with secondary guarantees (ULSG) policies issued between July 1, 2005 and December 31, 2006, with a higher set of cost of insurance (COI) charges being triggered if the shadow account value ever becomes 0 after issue:

   a. Issue 1) Reserves have always been calculated using the wrong methodology for determining the ratio in the fourth step of Section 8B. In applying Section 8D, would the reserves for 8Da1 be based on the correct methodology or on the methodology actually used by the company for year-end 2011?

   b. Issue 2) A policy has a negative account value but has not lapsed due to the secondary guarantee. The shadow account value eventually drops to 0 and then becomes negative, and the policyholder pays a premium during the grace period intended on keeping the policy in force. The company invokes the higher secondary guarantee charges to calculate the shadow account value, but the policyholder argues that the lower shadow account COI charges apply due to the premium being paid during the state required grace period; i.e., that during the grace period the policyholder has the opportunity to pay a premium based on the lower COI charges rather than based on the much higher set of COI charges. This is litigated, and a ruling is made that the higher COI rates cannot be charged unless the shadow account value has not been positive for a period of time greater than the grace period. Based on this ruling, the assumption in the AG38 calculation that the higher set of COI charges would be triggered at the end of the first policy year would not be valid. Would the reserves for 8Da1 continue to be based on the assumption that the higher COI charges would be triggered after the first policy year, or would they be modified to reflect the lower COI charges?

   c. Issue 3) Policies with multiple sets of COI charges have only been issued in 2012. What is the basis for the value of (1)?

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2. Issue 1) The reserves determined by the company under 8D(a)(1) are intended to be consistent with the methodology used by the company for the 12/31/2011 valuation. If a calculation error has been made in applying the 2011 methodology, this error should not be repeated in applying this methodology for the 2012 year-end valuation.

3. Issue 2) Where a valid court decision has interpreted the provisions of a policy, those interpretations should be reflected in future reserve calculations. In effect, the court ruled that the company made a mistake in applying certain policy provisions. Therefore, the 2012 reserve calculations should incorporate the correct view of the affected policies' provisions as determined by the court. As in 1) above, any error in the 2011 reserve calculations due to this company mistake should not be perpetuated in the 2012 reserve calculations.

4. Issue 3) In this case, the value of (1) would be based on the company's methodology for reserving these policies for 2012 quarterly reporting.

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. Is the report documenting the special 2012 sensitivity test described at the end of Section 8D required to be a stand-alone document or can it be included in the required Section 8D Actuarial Memorandum?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Considering the special nature of the 2012 sensitivity test, the documentation should be contained either in a stand-alone document or included as a separate appendix in the Actuarial Memorandum

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. If all of a company's universal life with secondary guarantees (ULSG) policies subject to Section 8D are the same identical policies that are subject to Section 8C are they still required to perform the separate Section 8C stand-alone asset adequacy analysis or does the Section 8D Primary Reserve Methodology calculation suffice?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Such policies are still required to perform the separate Section 8C stand-alone asset adequacy analysis. Section 8D, second paragraph clarifies that Section 8D is "in addition to any testing that may be required under Section 8C."

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(a)

Issue / Question

1. For companies using the Primary Reserve Methodology, is it expected that the full deterministic reserve calculations will be performed every quarter or just annually?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. This methodology would be used at least annually, with appropriate approximations used as permitted pursuant to quarterly statutory reporting requirements.

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Actuarial INT 09

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(a)

Issue / Question

1. If the deterministic reserve "wins" for the Primary Reserve Methodology calculation, what impact should that have on tax reserves?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. This question involves determination of values under the requirements of the Internal Revenue Code. The NAIC has no comment on how those values should be determined.

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Actuarial INT 10

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December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(a)(2)

Issue / Question

1. In relation to the Valuation Manual, Item 2. under the Primary Reserve Methodology section references "…or in any version subsequently adopted by the NAIC…." Please clarify exactly what constitutes "adopted by the NAIC." Does it have to be adopted by Executive/Plenary or just the A Committee or just Life Actuarial (A) Task Force (LATF)? "Version" includes amendments that have been adopted, correct?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Adopted by the NAIC means the Valuation Manual and any amendments adopted through Executive & Plenary as of the 7/1 preceding the year-end valuation date.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 11

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December 19, 2012

Date Adopted by Financial Condition (E) Committee

December 20, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation

Issue / Question

1. My question is on section 8E, regarding when a product would fall under method 1 or method 2. If you have a shadow account product that has either a single set of charges, or multiple sets of charges, and the product meets the crediting rate limitations defined in method 1, is there anything that could cause the product to be deemed to be subject to method 2? To put it another way, when I read section 8E, it seems that any shadow account product meeting the interest crediting limits would fall under method 1. This is because all shadow accounts have either a single set of charges or multiple sets of charges, so all shadow account products that meet the interest crediting limitation would fall under policy design 1 or policy design 3. Is this a correct interpretation, or if not, why?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. This interpretation is not completely correct. In drafting the revisions to AG 38, regulators were aware of the possibility that all existing and future product designs might not fit the three generic product designs noted in AG 38, independent of the crediting rate limitation. Method II was intended to provide a default reserve methodology for these other product designs, together with the more generic product designs containing interest crediting guarantees higher than the company-selected interest index plus 3 percent. The considerations in satisfying the actuarial opinion requirements contained in Section 8E should enable the opining actuary to determine the appropriate reserving methodology for a particular universal life with secondary guarantees (ULSG) product design.

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Actuarial INT 12

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. Section 8D(b), Alternate Methodology, requires the company to determine its deficiency reserve under Model 830 using mortality and lapse assumptions according to the same requirements for determining the deterministic reserve in the Valuation Manual. Does this require the company to determine its Triple-X segments (under the segmentation method) using the qx and lapse rates of the VM, or simply use these qx and lapse rates in calculating the deficiency reserve once the segments are determined using the company's current approach for determining such segments?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. The original mortality basis for determining the segment length can continue to be used. 8D is not intended to be more restrictive in determination of segments.

Note: This response is similar to that for question Actuarial INT 03.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 13

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December 20, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation

Issue / Question

1. Given all of the focus that the Guideline places on what premiums to use for these universal life with secondary guarantees (ULSG) reserve calculations, we are having unexpected difficulty finding published guidance on what premiums to assume in the deterministic reserve calculations for the Primary Reserve Methodology. Does such guidance exist and if so, where can we find it?

2. This question specifically asks for published guidance, but if none exists, perhaps the Working Group could provide such guidance or at least common practices/approaches they are aware of. Guidance is needed to create consistency amongst how companies are approaching this step of the calculation.

Interpretation of Emerging Actuarial Issues (E) Working Group

3. For 8D(a)(2) reserve calculations, the company should use the expected premium to be paid by the policyholder, determined either policy by policy or by appropriate policy groupings. The Valuation Manual adopted by the A Committee on 5/17/12 provides requirements regarding premiums for the deterministic reserve calculations. Such requirements include those in Section 4(A), Section 7(B), and Sections 9(A) and 9(D).

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Actuarial INT 14

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December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. In the case of a Method I type product that is currently being sold and will continue to be sold unmodified after 12/31/12, the company would have to do a standalone asset adequacy analysis under Section 8C for issues 1/1/07 through 12/31/12 but they would not have to do a standalone asset adequacy analysis for issues after 12/31/12 even though it is the same product. Correct?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Yes. It is a correct interpretation that the stand-alone asset adequacy analysis in 8C does not include policies issued after 12/31/12.

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December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E(II)

Issue / Question

1. The minimum schedule of premiums required to be identified/tested for in Method II is something that is expected to be needed to be done separately for every age/sex cell, correct?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Yes. The schedule of minimum gross premiums should be based on all appropriate attributes unique to the policy being valued.

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Actuarial INT 16

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December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. If all of a company's currently approved universal life with secondary guarantees (ULSG) policy forms fall under the same Method I policy design, pass the Index Test, and meet the minimum premium requirements, can a single Actuarial Opinion and a single Company Representation be submitted that lists each policy form or does a separate Actuarial Opinion and a separate Company Representation need to be submitted for each form?

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2. This is up to the state of domicile. Some groupings may make sense but any special qualification or language needed should result in a separate opinion and representation.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 17

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E(II)

Issue / Question

1. Is the greatest deficiency reserve test to be performed on a seriatim or product level basis? What if we see mixed results (For example, 70% pattern 1 and 30% pattern 2)

Interpretation of Emerging Actuarial Issues (E) Working Group

2. The test should be performed on a seriatim basis, except to the extent it may be practical to group policies with identical attributes. It is possible that several combination premium patterns will be identified as having broad applicability. Regardless, each policy should assume a premium pattern that produces the greatest deficiency reserves as of the issue date consistent with good faith testing and review.

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December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E(II)

Issue / Question

1. For the combination premium patterns, what does it mean "...to have access to better charges and credits...."? Can this be ignored it if the product only has one set of charges?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Better charges and credits can be understood as lower charges and/or higher credits that may be triggered based on the magnitude of the premium paid, the shadow account or other measures generally dependent on policyholder behavior. For example, a higher interest rate might apply to amounts above or below some defined premium dollar limit in particular policy years or based simply on the level of the shadow account. Higher or lower premium payments could lead directly to the most favorable interest rate (or weighted average interest rate) accessible within product design constraints. Better charges and credits would generally lead to lower minimum gross premiums and potentially greater deficiency reserves. For purposes of this question this requirement cannot be ignored, particularly if there are multiple sets of credits in addition to the assumed single set of charges.

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December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E(II)

Issue / Question

1. When testing combination premium patterns, do premium patterns that break segments need to be considered?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. It is not necessary to reverse engineer premium patterns solely to create unfavorable segment breaks. However, segment breaks that result from premium patterns consistent with the applicability of favorable charges and credits must be considered.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E(II)

Issue / Question

1. Do patterns with dump-in premiums need to be tested? If so, how should the dump-in premium be reflected in the determination of the uniform percentage (i.e., do you include the dump-in premium in determining the k percentage).

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Premium patterns that involve dump-in premiums must be considered, and testing may be appropriate. In the absence of more definitive guidance, the uniform percentage should be determined in accordance with Actuarial Guideline 21.

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Actuarial INT 21

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January 30, 2013

Date Adopted by Financial Condition (E) Committee

February 20, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D (a)(2a)

Issue / Question

1. Should the VM-20 deterministic reserve starting asset requirement related to the 2% collar be applied before or after the Primary Reserve Methodology steps for starting and reinvestment assets are applied?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Subsection a.2.a) (I) of Section 8D requires the determination of one of two portfolios of existing assets to support the initial reserve estimate for the block. Once this initial asset portfolio is determined, the deterministic gross premium reserve is determined using as the discount rates the net investment returns generated by the future projected cash flows calculated using the selected initial portfolio and future net reinvestment rates established according to subsection a.2.a) (II) of Section 8D.

3. If the resulting reserve falls within the +/- 2% collar (referenced in VM-20) relative to the initial reserve estimate (and corresponding level of initial assets), the calculated reserve is the final reserve. If the calculated reserve breaches the +/- 2% collar, the actuary must either provide a detailed rationale as to why the calculated reserve is appropriate or redo the reserve calculation assuming revised initial reserve and asset levels.

4. In performing the additional reserve calculation(s), use the same asset portfolio (adjusted upward or downward as below based on the results of the deterministic reserve calculation), either that of subsection a.2.a) (I) (i) or a.2.a) (I) (ii), as chosen for the initial reserve calculation.

5. If the initial or subsequently determined reserve is greater than the prior reserve estimate and the asset portfolio used in the deterministic reserve calculation is:

   a. as described in subsection a.2.a)(I)(i), then the prior asset portfolio shall be adjusted upward using assets as described in subsection a.2.a)(I)(i) to the extent such assets remain available in the company's portfolio after which such assets shall be adjusted upward as needed using assets as described in subsection a.2.a)(I)(ii). The recommended method for adjusting the prior asset portfolio upward is to do so in a pro rata fashion. Any other method proposed for adjusting the prior asset portfolio upward must be clearly documented in the Actuarial Memorandum and shall not involve changing the asset composition of the prior asset portfolio but shall constitute only additions to that portfolio.

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b. as described in subsection a.2.a)(I)(ii), then the prior asset portfolio shall be adjusted upward as needed in a pro rata fashion using assets as described in subsection a.2.a)(I)(ii).

6. Regardless of which portfolio is chosen for the initial deterministic reserve calculation, if the initial or subsequently determined, reserve is less than the prior reserve estimate, then the prior asset portfolio shall be adjusted downward as needed in a pro rata fashion.

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December 20, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E/8D

Issue / Question

1. Consider the following: A universal life policy with a secondary guarantee requires that a shadow account be maintained at a positive level for the secondary guarantee to remain in effect. Once the shadow account value goes down to zero, the secondary guarantee terminates and cannot be reactivated. There is only one set of charges and credits that apply to the shadow account. In determining reserves for this policy under section 8E, would the assumption be made that the secondary guarantee terminates at the end of the first policy year since, if only the minimum premium is paid, the shadow account value would be zero at the end of the first policy year?

2. If the policy was written before 2013, would it be subject to section 8D?

Interpretation of Emerging Actuarial Issues (E) Working Group

3. For issues in or after January 1, 2013, 8E would be applicable. But the policy, as described, would not fit into Method I because the minimum premium derived according to Method I would not satisfy the secondary guarantee requirements. Calculation of the reserve using Method I requires that the minimum premium keep the secondary guarantee in effect. Therefore, it must be reserved according to Method II.

4. For issues between July 1, 2005 and December 31, 2012 (inclusive), any regulatory response regarding applicability of Section 8D would require analysis of the policy form and dialog with the valuation actuary.

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. Under 8E, Method I, Policy Design #1 applies for policies containing a secondary guarantee that uses a shadow account with a single set of charges and credits. For those policies, the minimum gross premium for any policy year is the premium that, when paid into a policy with a zero shadow account value at the beginning of the policy year, produces a zero shadow account value at the end of the policy year, using the guaranteed shadow account charges and credits specified under the secondary guarantee. Presumably, this will result in a yearly renewable term (YRT)-like pattern for the minimum premium.

2. The actuarial opinion required by 8E includes the statement "the minimum gross premiums determined under Policy Design # ___ are not inconsistent with the minimum premiums, charges and credits that are expected to apply under the policy." What is meant by "expected to apply"?

3. Since it is not likely that the policyholder will fund the policy using the YRT-like pattern that is the minimum premium, it does not seem as if "expected to apply" means "expected to be paid." It appears that "expected to apply" should be interpreted to mean that the YRT-type pattern will either fund the secondary guarantee or it is less than the minimum amount necessary to fund the guarantee.

Interpretation of Emerging Actuarial Issues (E) Working Group

4. The phrase "expected to apply" is intended to mean that the minimum premiums determined (\$0-to-\$0) are based on charges/credits generally consistent with those expected to apply to premium scales likely to be received from policyholders. For example, high premium loads at later durations would not be expected to apply for products with charges and credits that encourage a limited-pay or single-pay premium pattern. Other design features that should give the opining actuary pause, and could draw regulatory scrutiny, include negative charges and credits or unusual patterns of charges and credits. In addition, the actuary should not favorably opine on a product for Method I reserves with variables resulting in minimum gross premiums that would be inconsistent with the premiums a reasonable person would pay to limit advance funding. If the actuary is unable to opine favorably, the reserves should be calculated under Method II.

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation

Issue / Question

1. A shadow account has a product design feature where the premium load is expressed as a fixed percentage of premium up to the target premium, and the target premium is reasonably consistent with level premium funding of the lifetime guarantee. In effect, there is a fixed dollar cap on the annual premium charge. The literal form of the charge is simply a specified percentage of premiums up the target premium and 0% thereafter. This will always mathematically produce the same result as the capped charge described above. Please clarify that a fixed dollar cap for the premium load, regardless of how the cap is expressed, does not make such a product incompatible with Policy Design # 1.

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2. A flat percentage of premium charge, subject to an annual maximum, would be compatible with Policy Design (PD) #1 provided the actuary is able to issue an unqualified actuarial opinion. The specified percentage rate subject to an annual maximum may be construed as a single rate even though an alternative expression of this charge could be viewed as involving a second rate equal to zero. However, it should be noted that the actuary might be unable to opine favorably in the case of designs with credit/charge structures that encourage limited-pay premium schedules.

3. The above interpretation does not extend to designs using a flat percentage load for premiums up to a break point and a different (non 0%) load for premiums above that. Such a design should be considered as PD#3, as would any design with tiered interest rate credits or other tiered credits/charges.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 25

Date Adopted by Emerging Actuarial Issues (E) Working Group

January 30, 2013

Date Adopted by Financial Condition (E) Committee

February 20, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. Does the exemption for UL policies with short guarantee periods (see below) still apply in Section 8E of AG38?

2. This language is from the XXX model reg (Model 830)

> 3.A.(2) This regulation shall not apply to any universal life policy that meets all the following requirements:
>
> (a) Secondary guarantee period, if any, is five (5) years or less;
>
> (b) Specified premium for the secondary guarantee period is not less than the net level reserve premium for the secondary guarantee period based on the CSO valuation tables as defined in Section 4F and the applicable valuation interest rate; and
>
> (c) The initial surrender charge is not less than 100 percent of the first year annualized specified premium for the secondary guarantee period.

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3. Yes.

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Actuarial INT 26

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February 12, 2013

Date Adopted by Financial Condition (E) Committee

April 8, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D

Issue / Question

1. Section 8D(a) references the deterministic reserve calculation in the VM20 valuation manual in the definition of the Primary Reserve Methodology. As part of the asset assumptions used in the deterministic reserve calculation, page 82 of the VM20 manual describes the derivation of the Illustrative Current Market Benchmark Spreads. We have reviewed the JP Morgan US Liquid Index data referenced, and the final published values appear to be derived from the underlying data for the index as opposed to referencing published table views. Does the Working Group agree that using an updated table would be preferred? Would the Working Group consider publishing an updated table as of 9/30 or providing additional details on how the table values (shown on page 89) were derived? The values for Table G (page 90) for the below investment grade bonds were taken directly from the source index so they are easy to replicate.

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2. For the 12/31/12 AG 38, 8D valuation it may be assumed that the 9/30/09 Tables H & I approximate both Tables F & G and Tables H & I as of 12/31/12. This assumption is based on benchmarking with current spread information from other sources as of 12/31/12. It is understood that strict technical compliance for each and every asset may not be possible due to modeling limitations. Professional judgment should be used to produce results that comply with the spirit of this standard, i.e., no lessening of conservatism. For example, if a company has access to current data sources and can reconstruct Tables F and G as of 12/31/12 then this would be an acceptable approach. In any event, appropriate explanation and justification should be provided for the methodology that was employed and the results that were obtained. The NAIC intends to provide updated tables for future year end AG 38, 8D, valuations.

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April 8, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D

Issue / Question

1. If the modified VM-20 deterministic reserve ends up being the minimum reserve held in the AG 38 8D calculation, can a reinsurance reserve credit also be calculated under the guidance of VM-20 (in particular for YRT reinsurance)?

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2. The Section 8D reserve methodology (VM-20 deterministic) applies for calculating the company's aggregate gross reserve before reinsurance. AG 38, 8D, does not address how the credit for reinsurance is determined. The approach to determine the credit for YRT reinsurance shall be documented in the stand-alone Actuarial Memorandum required by AG 38, Section 8D(c).

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Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation

Issue / Question

1. A product has a shadow account product design feature where, in addition to the fixed charges and credits associated with the policy, there is a shadow account premium charge in the event that the policyholder underfunds the policy. This premium charge is expressed as a fixed percentage of the premium shortfall when compared to a given level premium.

2. Please clarify whether a shadow account charge expressed as a fixed percentage of the premium shortfall is regarded as "multiple sets of charges" or as a "single set of charges" and thus whether such a product is compatible with Policy Design # 1 or Policy Design # 3.

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3. This charge and treatment as Policy Design 1 does not appear consistent with the type of charge and treatment addressed by adopted INT 24 (formerly referred to as Pending Submission 6 prior to its adoption).

4. INT 24 deals with a single charge that all policyholders will incur which stops after a certain level of premiums have been paid. The charge described here is not incurred by all policyholders and provides the potential for a reserve premium being subject to the full impact of this charge whereas the premiums actually expected to be paid would not incur this charge.

5. More information is needed to fully assess the applicable Policy Design but based on the information provided Policy Design 3 appears appropriate.

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Actuarial INT 29

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April 4, 2013

Date Adopted by Financial Condition (E) Committee

April 8, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E I) 3 Actuarial Opinion and Company Representation section

Issue / Question

1. A company currently issues a ULSG product that is clearly a Policy Design #3. Two hypothetical examples of the charge/credit structure are shown in Tables 1 and 2 below. Under either structure, the policy form:

- Is clearly Policy Design #3
- Does not run afoul of the "Index plus 3%" of 8E

2. The purpose of the bifurcated cost of insurance charge structure in Table 1 or bifurcated premium charge structure in Table 2 is to optimize management of policyholder premium paying pattern behavior. The exact insurance charge for any given policy under the Table 1 design is either COI 1 or COI 2, where the rate is determined by comparing the actual fund value to a pre-defined fund value. If the actual fund value is in excess of the pre-defined fund value, COI 1 is used, otherwise COI 2 is used. Similarly, the exact premium charge amount for any given policy under the Table 2 design is PremPct1 for amounts paid up to a target amount plus PremPct2 for amounts paid in excess of the target amount.

3. The company's approach to establishing statutory reserves has always been to determine AG XXXVIII Step 1 minimum premiums based on the lowest charges from Table 1 (or Table 2). The actuary concludes that everything in the reserving practices of the company with respect to this policy form is in compliance with the letter and spirit of AG XXXVIII, and except for the third statement in the Actuarial Opinion (of Section E), the actuary feels s/he could sign such an attestation. The third statement declares "the minimum gross premiums determined under Policy Design #3 are not inconsistent with the minimum premiums, charges and credits that are expected to apply".

4. What is the actuary expected to do in such a situation?

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	TABLE 1					TABLE 2			
	COI_1	COI_2	Interest	Prem Load		COI	Interest	Up to Target PremPct1	In excess PremPct2
45	0.000066	0.000231	3.75%	15%	45	0.000149	4.00%	15%	5%
46	0.000108	0.000378	3.75%	15%	46	0.000243	4.00%	15%	5%
47	0.000146	0.000511	3.75%	15%	47	0.000329	4.00%	15%	5%
48	0.000180	0.000630	3.75%	15%	48	0.000405	4.00%	15%	5%
49	0.000212	0.000742	3.75%	15%	49	0.000477	4.00%	15%	5%
50	0.000242	0.000847	3.75%	15%	50	0.000545	4.00%	15%	5%
51	0.000276	0.000966	3.75%	15%	51	0.000621	4.00%	15%	5%
52	0.000316	0.001106	3.75%	15%	52	0.000711	4.00%	15%	5%
53	0.000364	0.001274	3.75%	15%	53	0.000819	4.00%	15%	5%
54	0.000422	0.001477	3.75%	15%	54	0.000950	4.00%	15%	5%
55	0.000486	0.001701	3.75%	15%	55	0.001094	4.00%	15%	5%
56	0.000556	0.001946	3.75%	15%	56	0.001251	4.00%	15%	5%
57	0.000632	0.002212	3.75%	15%	57	0.001422	4.00%	15%	5%
58	0.000712	0.002492	3.75%	15%	58	0.001602	4.00%	15%	5%
59	0.000796	0.002786	3.75%	15%	59	0.001791	4.00%	15%	5%
60	0.000882	0.003087	3.75%	15%	60	0.001985	4.00%	15%	5%
61	0.000972	0.003402	3.75%	15%	61	0.002187	4.00%	15%	5%
62	0.001070	0.003745	3.75%	15%	62	0.002408	4.00%	15%	5%
63	0.001180	0.004130	3.75%	15%	63	0.002655	4.00%	15%	5%
64	0.001310	0.004585	3.75%	15%	64	0.002948	4.00%	15%	5%
65	0.001470	0.005145	3.75%	15%	65	0.003308	4.00%	15%	5%

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5. As indicated in INT 23, the actuary who is unable to opine favorably would be required to calculate reserves in accordance with Method B.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 30

Date Adopted by Emerging Actuarial Issues (E) Working Group

June 6, 2013

Date Adopted by Financial Condition (E) Committee

July 17, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. Does Section 8E apply to the following.... (a) a 10 year secondary guarantee of the cumulative minimum premium variety where there is no interest credited to the premiums, and premiums are expected to be level (b) same question as above except the secondary guarantee period is 15 years.

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2. Yes. Section 8E applies to both, for policies issued on or after 1/1/2013.

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Actuarial INT 31

Date Adopted by Emerging Actuarial Issues (E) Working Group

August 23, 2013

Date Adopted by Financial Condition (E) Committee

August 26, 2013

Reference

1. Subsection 8D states in the second paragraph that: "This section does not apply if the minimum gross premiums for the policies are determined by applying the set of charges and credits that produces the lowest premiums, …"

2. Interpretation ACT INT 02 states that a company may switch between the Primary Reserve Methodology and the Alternative Reserve Methodology.

Issue / Question

3. Can a company use the Alternative Reserve Methodology found in sub-section 8D of AG38 for a policy with multiple sets of interest credits or charges if the reserves have previously been calculated using the lowest minimum gross premiums?

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4. The applicability language in the second paragraph of AG 38, Section 8D, should not be interpreted to preclude a company from using AG 38, Section 8D(b), "Alternative Reserve Methodology", pursuant to the requirements of 8D(b) and any applicable interpretations adopted by the NAIC.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 32

Date Adopted by Emerging Actuarial Issues (E) Working Group

August 23, 2013

Date Adopted by Financial Condition (E) Committee

August 26, 2013

Reference

Regulation XXX; *Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation*, Section 8D

Issue / Question

1. The company states that reserves equal to the deterministic reserves required in the valuation manual of the valuation law (model 820) are lower than produced under the above methodology, but states that it would hold reserves per the valuation manual if that produced greater reserves in aggregate for the block. If tested for each policy, the reserve required per the valuation manual would in some cases be higher than as calculated based on regulation XXX. Can the valuation manual floor be applied in aggregate rather than for each policy?

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2. The deterministic reserve as required by Actuarial Guideline 38 8D(a) should be applied in the aggregate versus policy by policy.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 33

Date Adopted by Emerging Actuarial Issues (E) Working Group

August 23, 2013

Date Adopted by Financial Condition (E) Committee

August 26, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 7 and Steps 1, 2, and 8 of Section 8E

Issue / Question

1. Does the language "This result may be negative." occurring twice in Step 3 of Section 8E of Actuarial Guideline 38 (AG 38) apply only to the Method I reserve approach in AG 38 or to both Method I and Method II reserve approaches? Step 3 of Section 8E of AG 38 provides for the determination of the amount of actual premium payments (or shadow account) greater than or less than the minimum gross premiums (or shadow account defined of minimum premiums), as defined in Section 8E.

2. The issue regarding the referenced language relates to the interpretation of Step 3 as it applies particularly to (i) cumulative premium secondary guarantee designs with a "premium catch-up provision" or (ii) shadow account secondary guarantee designs where, if the shadow account is below the level necessary to maintain the secondary guarantee, there is a "catch-up provision" where the shadow account may be reinstated prior to the end of the secondary guarantee period.

3. In addition to Section 8E of AG 38, it appears that Section 7 of AG 38 applies in this situation. For Section 8E Method I reserve calculations, the language of Section 7 appears to deal with any deficiency indicated in Step 3 of Section 8E satisfactorily since that deficiency is measured relative to the guarantees (cumulative premium or shadow account). In this case, the value of the numerator in Step 3 of Section 8E would be zero and the floor basic and deficiency reserve would be set at the minimums defined in Section 7.

4. However, for Section 8E Method II reserve calculations, for purposes of applying Section 8E, the deficiency in Step 3 is measured relative to the premium defined in Step 1 which is the schedule of minimum gross premiums that create the greatest deficiency reserve rather than the schedule of minimum gross premiums based on the policy guarantees. This is inconsistent with the requirements and intent of Section 7 and therefore would allow for the ratio in Step 4 of Section 8E to be negative.

Interpretation of Emerging Actuarial Issues (E) Working Group

5. The recommended response is essentially correct. The phrase, "This result may be negative" applies only to Method II policies in Section 8E, Step 3. This phrase does not apply to the Step 3 amount for Method I policies given the requirements of AG 38, Section 7. Method I policies that would otherwise have a negative Step 3 amount were it not for Section 7 are those policies that are underfunded but provide for a catch up provision as addressed by Section 7. The Step 2 basic and deficiency reserves for such policies, used to calculate the "reserve floor" in Step 8 (c), must be adjusted as provided by Section 7 prior to calculating the "reserve floor" in Step 8 (c).

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 34

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 22, 2013

Date Adopted by Financial Condition (E) Committee

December 17, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D.a.2(a)

Issue / Question

1. Section 8D directs companies to use "…the same requirements for determining the deterministic reserve in the version of the valuation manual specified…but with two modifications…" In determining future Treasury yield rates used in calculating the sale price of any asset existing on the valuation date, this language in Section 8D of AG38 can be interpreted in one of two ways:

   a. Assuming a level series of future Treasury yield curves for all future years of the model projection period. In this case, any gains or losses arising from the sale of existing assets during the projection period would be determined using a level Treasury yield curve scenario prospectively, and a spread applicable to the asset, as determined on the valuation date.

   b. Assuming the series of future Treasury yield curves is that described under Scenario 12 from the prescribed set of interest rate scenarios used in the stochastic exclusion test in VM-20. To these Treasury rates is added a spread to determine the yield rate to be used on the sale of an existing asset during the model projection period.

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2. It is recommended that the approach outlined in paragraph 1.a. be the interpretation of the relevant language of Actuarial Guideline 38 Section 8D.a.2(a).

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Actuarial INT 35

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December 13, 2013

Date Adopted by Financial Condition (E) Committee

December 17, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D.A.2(a)(I)

Issue / Question

1. Section 8.D.A.2(a)(I) states, "net investment returns based on a portfolio of A-rated corporate bonds purchased in the year of issue of the policies based on yields available in the year of issue of those bonds" shall be calculated.

2. A possible interpretation of this language is that a company may be permitted to determine this hypothetical portfolio book yield for each year using their actual A-rated bonds purchased in that year, i.e. their own A-rated bonds. Is this approach acceptable?

Interpretation of Emerging Actuarial Issues (E) Working Group

3. It was the intent of this provision that a company use a hypothetical portfolio composed of A-rated corporate bonds with yields commensurate with the A-rated corporate bond yields available in the year of issue. If the yields associated with the company's actual A-rated bonds purchased in the year of issue are commensurate with A-rated corporate bond yields available in the year of issue, then the company's approach is acceptable. If the yields associated with the company's bonds are significantly higher than A-rated corporate bond yields available in the year of issue, then the approach is unacceptable.

4. If such an approach was used, the appointed actuary should address this question in the memorandum. Reasonable approaches for comparison to a company's assets include using a published index of A-rated corporate bond yields such as Moody's at an appropriate point in the year of issue or an average over the course of the year. Another reasonable approach would be to use a Treasury yield curve at an appropriate point in the year of issue or an average over the course of the year plus an appropriate published spread of A-rated corporate bond yields over Treasuries. An appropriate point in time would be June 30 of that year if the business was sold uniformly throughout the year. If the comparison does not show the yields from company's assets to be commensurate with the published index or adjusted yield curve rate, then (a) the sample size of the company's own A-rated portfolio relative to the total portfolio backing the liabilities, and (b) the year to year consistency of asset allocation become major items to be addressed in the memorandum.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

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December 17, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D.a

Issue / Question

1. Section 8D.a. applies to a company's aggregate gross reserve before reinsurance. The reserve calculation requires a projection of future year-by-year cash flows which includes such items as investment earnings and general insurance expenses. If a company has ceded 100% of the business to an authorized reinsurer by use of coinsurance, the assets and net liabilities are no longer on the ceding company's books. Additionally, the administration is also generally transferred to the reinsurer. In such circumstances, the projection of future cash flows is "hypothetical" in that one must assume a starting asset portfolio, future investment strategy, future general insurance expenses, and so on. Furthermore, the ceding company generally does not have the data or systems to determine the reserves and must rely on the assuming company.

2. Since the assuming company is required to calculate the reserves on both direct and assumed business, may the ceding company use the reserves as reported by the reinsurer in the reinsurer's annual statement?

Interpretation of Emerging Actuarial Issues (E) Working Group

3. Under 100% coinsurance agreements with an authorized reinsurer, the ceding company is permitted to report reserves equal to those calculated by the reinsurer in the reinsurer's Exhibit 5/Schedule S.

4. Note that this interpretation was not being requested for coinsurance with funds withheld, modified coinsurance, or agreements where the reinsurer is unauthorized.

5. The Working Group recommends the above interpretation as guidance for yearend 2013, provided there is no conflict with the accounting requirements in the *Accounting Practices and Procedures Manual*. The issue/question will be submitted to the Life Actuarial (A) Task Force for broader consideration and possible amendment to the valuation manual.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 37

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December 17, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Sections 8B and 8C

Issue / Question

1. Step 4 of Section 8E says "…determine the minimum amount of shadow account required to fully fund the guarantee." Should this determination take into account actual history, or is this a purely theoretical value?

2. Consider a hypothetical policy valued on its 5th anniversary. It has a shadow fund value of $12,000. Premiums of $2,500 were paid on each anniversary. If the policyholder paid an additional $63,000 (net of premium loads) on the valuation date, the guarantee would be fully funded. However, due to the product design, if the $12,000 shadow fund value resulted from a single premium of $10,000 at issue, the guarantee would be fully funded by payment of an additional $60,000 (net) at the valuation date. Is the "minimum amount" $75,000 or $72,000?

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3. Step 4 of Section 8E states that the determination is to be made as of "the valuation date for the policy being valued…", indicative of a seriatim calculation that considers the actual circumstances of the policy. If on the valuation date a specific set of charges and credits are applicable for future shadow account calculations, such charges and credits should be used in the determination regardless of any more favorable charges and credits that may have been available as of the issue date.

4. Given the information that the policyholder has no control over the future charges and credits to be applied in fully funding the guarantee, it is presumed that a single set of charges/credits (with no caps or floors) is operative as of the valuation date. While an unqualified response is not possible in the absence of a full understanding of the policy design, the minimum amount appears to be $75,000 rather than $72,000.

5. Also, per AG38, Section 8E, the actuary must ensure that the methodology is compatible with the intent that the funding ratio (Step 3 result divided by the Step 4 result) measures the level of prefunding.

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Actuarial INT 38

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August 14, 2014

Date Adopted by Financial Condition (E) Committee

August 18, 2014

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D

Issue / Question

1. Actuarial INT 27 clarifies that AG38, Section 8D, addresses the gross reserve requirements and required documentation regarding reinsurance. In reviewing the AG 38, Section 8D Actuarial Memorandum and reinsurance information, it appears that guidance is needed to address situations where the YRT reinsurance agreement reserve credit taken may be significantly different than the reserve an assuming company has set up. Such a significant difference can be due to a larger credit being calculated under VM-20 assumptions versus that set up by an assuming company. Additionally, in some cases the higher gross reserve required under the AG 38, Section 8D modified deterministic reserve, was not reported in the statutory blank prior to the reinsurance credit being taken.

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2. The reserve established pursuant to AG 38, Section 8D (AG38-8D), should be reported on a gross basis prior to any adjustment for reinsurance. In addition, the reserve credit for reinsurance on policies subject to AG38-8D should be calculated using current statutory requirements and mortality and interest applicable under the AG38-8D.a.1. calculation.

3. Since AG38-8D does not address credit for reinsurance and only addresses calculation of the gross reserve, any determination of such credit would be outside of AG38-8D and, therefore, based on current statutory requirements and accepted practices. For example, for the calculation of the ceding credit to be posted in the statutory statement, current accounting guidance (including SSAP No. 61R, paragraph 37) should be followed. And for asset adequacy analysis, both for general testing of aggregate reserves and for the standalone analysis required by AG38-8C, currently accepted actuarial practice should be followed. AG38-8D does not incorporate VM-20 directly into either of these.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 39

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November 14, 2014
Revised November 2, 2015

Date Adopted by Financial Condition (E) Committee

November 18, 2014
Revised November 21, 2015

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D. a.2.a)(I), Section 7.D. of VM-20

Issue / Question

1. Subsection a.2. of Section 8D provides for two exceptions to the usual deterministic reserve requirements of VM-20 in calculating the gross premium reserve in Section 8D.a.2. One of these exceptions, in subsection a.2.a)(I), relates to net investment earnings on starting assets and limits those earnings to "…the lesser of (i) the actual portfolio net investment returns and (ii) the net investment returns based on a portfolio of A-rated corporate bonds…".

2. The language of Section 8D.a.2.a)(I) is not prescriptive as to the process for determining this net investment earnings comparison. One option is to compare actual portfolio yields to hypothetical portfolio yields as of a single point in time, most logically the valuation date. Another option is to develop both an actual and hypothetical portfolio as of the valuation date and project future asset cash flows and net investment returns prospectively and then use the lesser earning portfolio net investment return in each future year. Other prospective-type approaches to determining the Section 8D.a.2.a)(I) lesser net investment return portfolio are also possible. These lesser returns are then combined, in some fashion, with the net reinvestment returns prescribed in Section 8D.a.2.a)(II) to develop the final path of discount rates used in the final (Section 8D.a.2.c) reserve calculation.

3. In determining an appropriate interpretation of the language of Section 8D.a.2.a)(I) an important question to ask is: Is a prospective-type interpretation and approach illustrated above, or something similar, consistent with the determination of a single starting asset portfolio as described in Section 7.D. ofVM-20? The objective of the requirement in Section 8D.a.2.a)(I) is to impose a restriction on the determination of the starting asset portfolio required under VM-20 for the deterministic reserve calculation not to anticipate the use of multiple portfolios prospectively. The use of future year-by-year net investment returns from multiple portfolios (actual and hypothetical) would appear to be inconsistent with the starting asset portfolio requirement of VM-20.

4. The issues at hand are twofold:

   a. Does a prospective future net investment return comparison interpretation of the language of Section 8D.a.2.a)(I) create an inconsistency with the language of Section 7.D. of VM-20 with respect to the requirements for utilizing a single starting asset portfolio in the deterministic reserve calculation?

   b. Given the multitude of possible approaches that might be used, does a prospective future net investment return comparison interpretation of the language of Section 8D.a.2.a)(I)

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lead to the creation of a non-level playing field beyond the range of approaches available in interpreting Section 8D.a.2.a)(I) in a manner that is consistent with VM-20?

Interpretation of Emerging Actuarial Issues (E) Working Group

5. For 12/31/2014 and later Section 8D submissions, for purposes of determining the starting asset portfolio, the language of Section 8D.a.2.a)(I) is interpreted such that the actual/hypothetical starting asset portfolio net investment return comparison is made as of the valuation date and not prospectively. Examples of how the comparison may be made include (i) a comparison of the weighted average hypothetical portfolio versus actual portfolio net investment returns as of the valuation date or (ii) a historical issue-year-by-issue-year hypothetical versus actual portfolio net investment return comparison, perhaps resulting in a starting asset portfolio as of the valuation date that is a hybrid of the company's actual portfolio assets for certain issue years and a hypothetical asset portfolio for other issue years.

6. For purposes of this comparison for 12/31/16 and later, the actual portfolio net investment return is adjusted by the current amortization of IMR allocated to the portfolio. This adjustment is made only for the comparison of portfolio yields to determine the appropriate portfolio to use in the development of the deterministic reserve. The reserve amount is then determined following the procedure defined in VM-20.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 40

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 14, 2014

Date Adopted by Financial Condition (E) Committee

November 18, 2014

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D.a.2.c) and Section 7.C.4. of VM-20

Issue / Question

1. Subsection a.2.c) of Section 8D provides for the calculation of gross premium Primary Reserve to be performed using the path of net investment returns determined in Section 8D.a.2.b) "…to discount the cash flows applicable to those policies.", i.e. those policies subject to Section 8D. The cash flows referenced in Section 8D.a.2.c) are to include, as per Section 4.A.3. of VM-20, death and cash surrender benefits. For the ULSG policy types subject to the requirements of Section 8D, if the interest rate credited to the policy account value is a non-guaranteed element (NGE), the value of the benefits be directly impacted by the net investment earnings of the assets used to back the reserves held in support of the risks assumed under the policies. In addition, lapse rates for these ULSG policy types also may vary depending on the net investment earnings of the assets used to back the reserves held in support of the risks assumed under the policies.

2. Section 7.C. of VM-20, covering NGE cash flows, requires, in subsection 4. that:

   a. "Projected levels of NGE in the cash flow model must be consistent with the experience assumptions used in each scenario. Policyholder behavior assumptions in the model must be consistent with the NGE assumed in the model."

   b. There is only a single (level) interest rate scenario applicable for the Section 8D.a.2. reserve gross premium reserve calculation so the issue centers on whether the NGE and policyholder behavior assumptions are "consistent" with the experience assumptions and NGE respectively.

Interpretation of Emerging Actuarial Issues (E) Working Group

3. This interpretation permits the delinking of the liability cash flows used in the Section 8D.a.2.c) gross premium reserve calculation from the net investment returns determined as in Section 8D.a.2.b) provided the actuary can provide justification that the impact of such delinkage on the Section 8D.a.2. reserve calculation is consistent with the requirements of Section 7.C.4 and Section 2G of VM-20.

4. The information required to support the delinked approach would need to present reasonable justification and reflect the consistency of the assumptions used with the particular company's anticipated experience and ULSG product structures. The information provided should be adequate to support the assertion that the requirements of Section 2.G. and Section 7.C.4. of VM-20 have been achieved.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 41

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 11, 2014

Date Adopted by Financial Condition (E) Committee

December 12, 2014

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D. a.2.a)(I)

Issue / Question

1. Section 8D directs companies to test: "The company's aggregate gross reserve before reinsurance for the business subject to this Section 8D to be reported in the December 31, 2012, and subsequent annual statutory financial statements of the company will be the aggregate reserve under 1 below, plus any excess of the aggregate reserve determined as defined in 2 below, over 1".

2. Furthermore Section 8D requires that for existing assets "The projected net investment earnings from the starting assets shall be the lesser of (i) the actual portfolio net investment returns and (ii) net investment returns based on a portfolio of A-rated corporate bonds purchased in the year of issue of the policies based on yields available in the year of issue for those bonds."

3. Is it required to test reinsurance assumed?

   a. Some companies only test at the direct writer level (using hypothetical portfolios) while other companies test the reinsurance assumed against actual assets.

4. Is it appropriate to use hypothetical portfolios for testing?

   a. Assuming a company where the reserves are 100% ceded (all but an insignificant amount was coinsurance) and no assets remain. May the company test on the basis of a hypothetical portfolio of A rated bonds described above? While this may be the only interpretation available, there is no connection between the assets and the liabilities or any company investment policy.

   b. When the existing asset yield is below that of the hypothetical portfolio, is it required to take a hair-cut on the yields of the existing assets or is it acceptable to use a hypothetical portfolio of just one bond per issue year instead?

Interpretation of Emerging Actuarial Issues (E) Working Group

5. Do the requirements of AG38-8D apply to applicable reinsurance assumed?

   a. Yes. It is required to apply the requirements of AG38-8D to include reinsurance assumed on risks that are within its scope. AG38-8D(a) includes the company's "aggregate gross reserve before reinsurance…". This is interpreted, for applicable business, to be the company's direct written business plus coinsurance reinsurance assumed and prior to any

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reinsurance ceded. Only this interpretation is consistent with the scope of AG38-8D and the reporting of reserves in Exhibit 5 of the annual statement.

6. Is it appropriate to use hypothetical portfolios for testing?

a. There are two types of hypothetical portfolios possible for this question.

i. The first type of hypothetical portfolio is required by AG-38, 8D(a)(2)(a)(I)(ii). This citation provides for a derivation of a hypothetical "portfolio of A rated corporate bonds purchased in the year of issue of the policies based on yields available in the year of issue for those bonds."

ii. There may be a second type of hypothetical portfolio to use in place of the actual portfolio pursuant to AG38, 8D(a)(2)(a)(I)(i) if that actual portfolio is incomplete or unavailable for a company that has ceded some or all of the risk through coinsurance. In this case the company may coordinate with and make use of the reserve calculations of the assuming reinsurer, as provided in VM-20 Section 8.A.1. However, the ceding company, in calculating the pre-reinsurance ceded reserve or gross reserve required by AG 38 Section 8D, must assure that such modeling and assumptions are appropriate as provided by the first paragraph of VM-20 Section 8.D.2 and as provided by VM-20 Section 8.D.2.b.

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Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 42

Date Adopted by Emerging Actuarial Issues (E) Working Group

May 14, 2015

Date Adopted by Financial Condition (E) Committee

August 17, 2015

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. A universal life policy contains a secondary guarantee based on the value of a shadow account. As long as the shadow account is positive, the policy is guaranteed not to lapse, even if the cash surrender value is not positive. The shadow account value accumulates with interest from one period to another, with deductions for COI charges. The interest credited to the shadow account is calculated as follows:

- 10% interest is credited to the shadow account up to a threshold amount.
- 0% interest is credited to the any excess of the shadow account over the threshold amount.
- The threshold amount is equal to the accumulation of the level premium that would keep the shadow account positive throughout the secondary guarantee period, assuming 10% interest is credited.

2. The shadow account is not larger than the threshold amount on the valuation date. For purposes of the fourth step in sections 8B and 8C of the Guideline, what interest rate should be used to determine the shadow account value that would fully fund the secondary guarantee?

Interpretation of Emerging Actuarial Issues (E) Working Group

3. This interpretation is qualified for issues within the scope of AG 38, Section 8E, only and applies to those section 8E products issued on and after 1/1/16. The intent of the ratio in AG 38 8E Step 4 is to measure the level of pre-funding and to specify its use to establish reserves in its application to the Net Single Premium. The objective is to provide for reserves equal to the appropriate portion of the Net Single Premium represented by pre-funding as of the valuation date. The ratio is a practical convention for this objective.

4. For shadow account secondary guarantee product designs with multiple charges/multiple credits where consistency of charges and credits in the numerator and denominator of the ratio is difficult to achieve, reasonable efforts must be made to establish a ratio which, on an aggregate basis, carries out the objective above.

5. Otherwise, reasonable efforts should be made to produce a conservative estimate of the present value of future benefits on a statutory basis which, in the aggregate, carries out the objective above. Such conservative estimate, when divided by the Net Single Premium calculated in AG 38 8E, Step 5, produces the ratio.

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6. For any shadow account secondary guarantee product designs with multiple charges/multiple credits the denominator of the ratio shall be limited to be no larger than the Net Single Premium as calculated in AG 38 8E, Step 5

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Appendix D
GAAP Cross-Reference to SAP
as of December 2018

Introduction

As expressed in the Statement of Concepts, statutory accounting principles (SAP) utilize the framework established by Generally Accepted Accounting Principles (GAAP). Appendix D includes GAAP pronouncements that have been considered or are pending consideration in the development of SAP.

The NAIC Codification of Statutory Accounting Principles Working Group addressed all GAAP pronouncements included in Category A, Category B and Category C issued through 1996 during the initial drafting of the SSAPs, as well as the AICPA Accounting Interpretations included in Category D. This working group is now called the Statutory Accounting Principles (E) Working Group (SAPWG).

- Category A – FASB Statements and Interpretations, APB Opinions, and AICPA Accounting Research Bulletins
- Category B – FASB Technical Bulletins, Board-Directed FASB Staff Positions, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position
- Category C – Consensus positions of the FASB Emerging Issues Task Force (EITF) and AICPA Practice Bulletins
- Category D – AICPA Accounting Interpretations

Subsequent to the NAIC codification of statutory accounting principles, as documented in the Policy Statement on the Maintenance of Statutory Accounting Principles (included in Appendix F), the SAPWG continued to review new GAAP guidance for applicability to SAP. Beginning January 1, 1999, the Emerging Accounting Issues (E) Working Group (EAIWG) was formed and began addressing FASB EITF opinions issued subsequent to 1996. The positions of the EAIWG are documented in an interpretation (INT) as indicated by reference in the applicable column of the GAAP Cross-Reference to SAP chart. Appendix B includes the full text of EAIWG INTs issued before December 31, 2015. In October 2010, the SAPWG undertook a project to incorporate authoritative guidance related to specific topics in one location. This means that guidance within INTs has been incorporated into the applicable SSAPs, where possible. Appendix D now references the applicable SSAP, not the nullified INT. Therefore, completely superseded SSAPs and nullified INTs are removed from the Manual and retained in *Appendix H – Superseded SSAPs and Nullified Interpretations*, which is posted for public reference on the SAPWG web page at *http://www.naic.org/cmte_e_app_sapwg.htm*. Under this approach, only current guidance is included in the Manual, while preserving the historical reference of previous authoritative SSAPs and INTs for accounting purposes.

In addition to the GAAP Cross Reference to SSAP, Appendix D includes a Nonapplicable GAAP Pronouncements supplement which contains a listing of GAAP pronouncements that have been considered in the development of SAP and deemed not applicable.

In June 2009, the FASB issued *FASB Statement 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (FAS 168)*, effective for interim and annual periods ending after Sept. 15, 2009. FAS 168 (Topic 105 of the FASB Codification) identified the sources of accounting principles and the framework for selecting the principles used in the preparation of the financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. Pursuant to this standard:

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- FASB Accounting Standards Codification was established as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities. (SEC guidance included within the FASB Codification is provided for convenience and relates only to SEC entities.)

- Accounting Standards Updates issued after the effective date of FAS 168 are not considered authoritative in their own right. Such standards serve only to update the FASB Codification, provide background information, and provide the bases of conclusions on the changes to the FASB Codification.

- Effective September 15, 2009, all non-SEC accounting and reporting standards were superseded. Additionally, all nongrandfathered, non-SEC accounting literature not included in the Codification was deemed nonauthoritative. As of September 15, 2009, AICPA Statements of Position are no longer reviewed as part of the statutory maintenance process as they are no longer considered authoritative GAAP literature. If the AICPA were to address an issue that affects the FASB Codification, an accounting standard update (ASU) would be issued and reviewed for applicability to statutory accounting.

As a result of FAS 168, Appendix D – GAAP Cross Reference to SAP has been revised to include reference of FASB Accounting Standards Updates, as well as the Accounting Standards Codification Reference (Topic and Subtopic) for pre-codification GAAP guidance. Pre-codification GAAP guidance that has been superseded as a result of exclusion from the GAAP Codification has been identified within Appendix D. Users of the NAIC *Accounting Practices and Procedures Manual* shall continue to refer to the FASB pre-codification standards, and the applicable references to such standards, to determine the GAAP guidance that has been adopted, adopted with modification or rejected for statutory accounting.

To assist users in tracing pre-codification GAAP standards to the FASB Codification, Appendix D – GAAP Cross-Reference to SAP includes the Topic and Subtopic for all pre-codification GAAP standards that have been included in the FASB Codification. This FASB Codification reference does not reflect GAAP guidance adopted for statutory accounting. Only the guidance detailed in specific SSAPs or INTs shall be utilized in determining the GAAP guidance adopted, adopted with modification or rejected for statutory accounting. Items noted with "Not Explicitly Included in Codification" are no longer included in the FASB Cross Reference tool.

Information Provided in Appendix D – GAAP Cross-Reference to SSAP:

- Status – This column includes the SAPWG status of review. A "pending" status indicates that the SAPWG has not completed deliberation of the GAAP pronouncement. Items noted as "Not Board-Directed SEC Update" will not be reviewed by the SAPWG unless specifically requested for review.

- Disposition – This column represents the general conclusion of the SAPWG/EAIWG for the stated GAAP pronouncement. This information is included in Appendix D as a reference tool, however, the guidance in the specific SSAP or INT shall be the authoritative source in determining the GAAP guidance adopted, adopted with modification or rejected for statutory accounting.

- Statutory Reference – This column provides the statutory accounting source addressing the GAAP pronouncement.

- Accounting Standards Codification Topic and Subtopic – This column provides a reference guide to trace pre-codification GAAP standards to the new FASB Codification.

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In addition to the "GAAP Cross Reference to SSAP," Appendix D includes the "FASB Codification to Pre-Codification GAAP" supplement. This supplement serves as a reference tool in tracing the FASB Codification to pre-codification GAAP standards that have been reviewed or are pending review as part of the current NAIC statutory accounting maintenance process. This supplement does not indicate which GAAP standards have been adopted, adopted with modification or rejected for statutory accounting. Pre-codification GAAP guidance not captured as part of the statutory accounting maintenance process, but that has been incorporated in the FASB Codification, has not been referenced within this supplement. Future consideration will occur on whether this pre-codification GAAP guidance will be reviewed for statutory accounting. Pre-codification GAAP included in the FASB codification, but not referenced within this supplement includes: FASB Derivative Implementation Group Issues; EITF Appendix D Topics; FASB Statement No. 138 Examples; FASB Staff Implementation Guides; AICPA Technical Inquiry Service and Audit and Accounting Guides. (The Audit and Accounting Guides (AAG) related to insurance have been reviewed for statutory accounting and are referenced in this supplement – HCO: Health Care Organizations, LHI: Life and Health Insurance and PLI: Property and Liability Insurance Companies. This supplement also does not include reference to the SEC standards incorporated within the FASB Codification: SEC Financial Reporting Releases; SEC Interpretive Releases; SEC Staff Accounting Bulletins; and SEC Regulation S-X.

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Category A - FASB Statements and Interpretations, APB Opinions, and AICPA Accounting Research Bulletins D-13

Category B - FASB Technical Bulletins, FASB Staff Positions, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position D-44

Category C - Consensus positions of the FASB Emerging Issues Task Force and AICPA Practice Bulletins D-66

Category D - AICPA Accounting Interpretations D-109

Nonapplicable GAAP Pronouncements D-111

FASB Codification Cross Reference to GAAP Pronouncements D-122

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ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.[1]
2009-01	Topic 105—Generally Accepted Accounting Principles—Amendments based on—Statement of Financial Accounting Standards No. 168—The *FASB Accounting Standards Codification*™ and the Hierarchy of Generally Accepted Accounting Principles	Complete	Adopt (Adopted FAS 168)	Preamble	Not Explicitly Included in Codification.
2009-02	Omnibus Update—Amendments to Various Topics for Technical Corrections	Complete	N/A	App E—NAIC GAAP	Not Explicitly Included in Codification.
2009-03	SEC Update—Amendments to Various Topics Containing SEC Staff Accounting Bulletins (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2009-04	Accounting for Redeemable Equity Instruments—Amendment to Section 480-10-S99 (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2009-05	Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value	Pending			820 825
2009-06	Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities	Pending			740
2009-07	Accounting for Various Topics—Technical Corrections to SEC Paragraphs (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2009-08	Earnings per Share—Amendments to Section 260-10-S99 (SEC Update)	SEC Update			260
2009-09	Accounting for Investments—Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees—Amendments to Sections 323-10-S99 and 505-50-S99 (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2009-10	Financial Services—Broker and Dealers: Investments—Other—Amendment to Subtopic 940-325 (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2009-11	Extractive Activities—Oil and Gas—Amendment to Section 932-10-S99 (SEC Update)	SEC Update			932

[1] To assist users in tracing pre-codification GAAP standards to the FASB Codification, the FASB Codification Topic and Subtopic for all pre-codification GAAP standards has been included in this Appendix. This FASB Codification reference does not reflect GAAP guidance adopted for statutory accounting. The Accounting Practices and Procedures Manual (E) Subgroup was formed to assess changes necessary to reflect the new GAAP Codification within statutory accounting principles. Until this process is complete, or as otherwise noted in specific SSAPs or Interpretations, users of the *NAIC Accounting Practices and Procedures Manual* shall continue to refer to the FASB pre-codification standards, and the applicable references to such standards, to determine the GAAP guidance that has been adopted, adopted with modification, or rejected for statutory accounting.

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.[1]
2009-12	Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)	Complete	Adopt	100R	820
2009-13	Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements	Complete	N/A Nullifies INT 04-18	App D - NA GAAP	605
2009-14	Software (Topic 985): Certain Revenue Arrangements That Include Software Elements	Complete	Adopt/M	16R	985
2009-15	Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing	Complete	N/A	App D - NA GAAP	470
2009-16	Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets (FAS 166)	Complete	Adopt/M	103R	Not Explicitly Included in Codification.
2009-17	Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (FAS 167)	Pending			Not Explicitly Included in Codification.
2010-01	Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash	Complete	N/A	App D - NA GAAP	505
2010-02	Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—A Scope Clarification	Pending			805 810 845
2010-03	Extractive Activities—Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures	Complete	N/A	App D - NA GAAP	932
2010-04	Accounting for Various Topics—Technical Corrections to SEC Paragraphs	SEC Update			Not Explicitly Included in Codification.
2010-05	Compensation—Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2010-06	Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements	Complete	Adopt/M	92, 100R, 102	715 820
2010-07	Not-for-Profit Entities (Topic 958): Not-for-Profit Entities, Mergers and Acquisitions	Pending			Not Explicitly Included in Codification.
2010-08	Technical Corrections to Various Topics	Complete	Adopt para. 815-20-25-15 Reject all others	86	Various
2010-09	Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements	Complete	Reject	9	855

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2010-10	Consolidation (Topic 810): Amendments for Certain Investment Funds	Pending			810
2010-11	Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives	Complete	Adopt/M Paragraph 815-10-50k Reject all others	27, 86	815
2010-12	Income Taxes (Topic 740): Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts	SEC Update			740
2010-13	Compensation—Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades	Complete	Adopt/M	104R	718
2010-14	Accounting for Extractive Activities—Oil & Gas: Amendments to Paragraph 932-10-S99-1 (SEC Update)	SEC Update			932
2010-15	Financial Services—Insurance (Topic 944): How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments	Pending			944
2010-16	Entertainment—Casinos (Topic 924): Accruals for Casino Jackpot Liabilities	Complete	N/A	App D - NA GAAP	924
2010-17	Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition	Complete	N/A	App D - NA GAAP	605
2010-18	Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset	Pending			310
2010-19	Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates	SEC Update			830
2010-20	Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses	Complete	Adopt/M for mortgage loans Reject all others	36, 37	310
2010-21	Accounting for Technical Amendments to Various SEC Rules and Schedules: Amendments to SEC Paragraphs Pursuant to Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies (SEC Update)	SEC Update			Various
2010-22	Accounting for Various Topics—Technical Corrections to SEC Paragraphs (SEC Update)	SEC Update			Various
2010-23	Health Care Entities (Topic 954): Measuring Charity Care for Disclosure	Complete	Adopt/M	54R	954

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2010-24	Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries	Complete	N/A	App D - NA GAAP	954
2010-25	Plan Accounting—Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans	Complete	N/A	App D - NA GAAP	310 962
2010-26	Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts	Complete	Reject	71	944
2010-27	Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers	Complete	N/A	App D - NA GAAP	720
2010-28	Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts	Complete	Reject	68, 90	350
2010-29	Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations	Pending			805 958
2011-01	Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20	Complete	See ASU 2011-02	36	310
2011-02	Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring	Complete	Adopt/M Paragraphs 310-40-15-13 through 18 and 310-40-15-20 Reject all others	36	310
2011-03	Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements	Complete	Adopt	103R	860
2011-04	Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs	Pending			715 805 820
2011-05	Comprehensive Income (Topic 220): Presentation of Comprehensive Income	Complete	N/A	App D - NA GAAP	205 220
2011-06	Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers	Complete	Adopt/M	106	405 720
2011-07	Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities	Complete	N/A	App D - NA GAAP	954
2011-08	Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment	Complete	Reject	68, 90	350
2011-09	Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan	Complete	Adopt	92, 102	715

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ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.[1]
2011-10	Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—A Scope Clarification	Complete	Reject	97	360
2011-11	Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities	Complete	Reject	64	210 270
2011-12	Comprehensive Income (Topic 220)–Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05	Complete	N/A	App D - NA GAAP	220
2012-01	Health Care Entities (Topic 954)–Continuing Care Retirement Communities— Refundable Advance Fees	Complete	N/A	App D - NA GAAP	954
2012-02	Intangibles—Goodwill and Other (Topic 350)–Testing Indefinite-Lived Intangible Assets for Impairment	Complete	Reject	68, 90	350
2012-03	Technical Amendments and Corrections to SEC Sections–Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22	SEC Update			Not Explicitly Included in Codification.
2012-04	Technical Corrections and Improvements	Complete	N/A	App D - NA GAAP	Various
2012-05	Statement of Cash Flows (Topic 230)–Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows	Complete	Adopt/M	69	230 958
2012-06	Business Combinations (Topic 805)–Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution	Pending			805
2012-07	Entertainment—Films (Topic 926)–Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs	Complete	N/A	App D - NA GAAP	926
2013-01	Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities	Complete	Reject	64	210
2013-02	Comprehensive Income – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income	Complete	N/A	App D - NA GAAP	220 270
2013-03	Financial Instruments: Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities	Complete	Reject	100R	825
2013-04	Liabilities: Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount is Fixed at the Reporting Date (Topic 405)	Complete	Adopt/M	5R	405

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.[1]
2013-05	Foreign Currency Matters: Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (Topic 830)	Complete	Adopt/M	23	805 810 830
2013-06	Not-for-Profit Entities: Services Received from Personnel of an Affiliate (Topic 958)	Complete	Reject	25	954 958
2013-07	Presentation of Financial Statements: Liquidation Basis of Accounting (Topic 205)	Complete	N/A	App D - NA GAAP	205 960 962 965
2013-08	Investment Companies: Amendments to the Scope, Measurement, and Disclosure Requirements (Topic 946)	Complete	Reject	App D NA GAAP	230 323 810 820 946
2013-09	Fair Value Measurements: Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04	Pending			820
2013-10	Derivatives and Hedging (Topic 815) Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes	Complete	Adopt	86	815
2013-11	Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists	Pending			740
2013-12	Definition of a Public Business Entity, An Addition to the Master Glossary	Complete	N/A	App D - NA GAAP	Glossary
2014-01	Investments—Equity Methods and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects	Complete	Adopt/M	93	323
2014-02	Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill	Complete	Reject	68, 90	350
2014-03	Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach (PCC)	Complete	Reject	86	815 825
2014-04	Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure	Complete	Adopt/M	37	270 310
2014-05	Service Concession Arrangements (Topic 853)	Complete	Adopt/M	22	853
2014-06	Technical Corrections and Improvements Related to Glossary Terms	Complete	N/A	App D – NA GAAP	Glossary
2014-07	Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (PCC)	Pending			810

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.[1]
2014-08	Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity	Complete	Adopt/M	24	205 360
2014-09	Revenue from Contracts with Customers (Topic 606)	Complete	Reject	[illegible]	Various
2014-10	Development Stage Entities (Topic 915), Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation	Complete	N/A	App D - NA GAAP	275 925
2014-11	Transfers and Servicing (Topic 860), Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures	Pending			860
2014-12	Compensation—Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period	Complete	Adopt	104R	718
2014-13	Consolidation (Topic 810)—Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity	Complete	N/A	App D - NA GAAP	805 810 820
2014-14	Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40)—Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure	Complete	Adopt	37	310
2014-15	Presentation of Financial Statements—Going Concern (Subtopic 205-40)—Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern	Complete	Adopt	1	205
2014-16	Derivatives and Hedging (Topic 815)—Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity	Complete	Reject	86	815
2014-17	Business Combinations (Topic 805)—Pushdown Accounting	Pending			805
2014-18	Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council)	Pending			805
2015-01	Income Statement—Extraordinary and Unusual Items (Subtopic 225-20)—Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items	Complete	Adopt/M	24	225
2015-02	Consolidation (Topic 810)—Amendments to the Consolidation Analysis	Pending			810
2015-03	Interest—Imputation of Interest (Subtopic 835-30)—Simplifying the Presentation of Debt Issuance Costs	Complete	Reject	15	835
2015-04	Compensation—Retirement Benefits (Topic 715)—Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets	Complete	Adopt/M	92, 102	715

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.[1]
2015-05	Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)—Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	Complete	Adopt	16R	350
2015-06	Earnings Per Share (Topic 260)—Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions	Complete	Reject	App D - NA GAAP	260
2015-07	Fair Value Measurement (Topic 820)—Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)	Complete	Adopt	100R	820
2015-08	Business Combination (Topic 805)—Pushdown Accounting, Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115	Pending			805
2015-09	Financial Services—Insurance (Topic 944)—Disclosures about Short-Duration Contracts	Complete	Reject	55, 65	944
2015-10	Technical Corrections and Improvements	Pending			
2015-11	Inventory (Topic 330)–Simplifying the Measurement of Inventory	Complete	Reject	App D - NA GAAP	330
2015-12	Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965)—I. Fully Benefit-Responsive Investment Contracts; II. Plan Investment Disclosures; III. Measurement Date Practical Expedient (consensuses of the FASB Emerging Issues Task Force)	Complete	Reject	App D - NA GAAP	960/962/965
2015-13	Derivatives and Hedging (Topic 815)—Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets (a consensus of the FASB Emerging Issues Task Force)	Complete	Reject	App D - NA GAAP	815
2015-14	Revenue from Contracts with Customers (Topic 606)—Deferral of the Effective Date	Complete	Reject	47	606
2015-15	Interest—Imputation of Interest (Subtopic 835-30)—Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting	Complete	Reject	15	835
2015-16	Business Combinations (Topic 805)—Simplifying the Accounting for Measurement-Period Adjustments	Pending			805
2015-17	Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes	Complete	Reject	101	740
2016-01	Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	Complete	Reject	26R, 30R, 32, 43R, 100R	825
2016-02	Leases (Topic 842)	Pending			840 842

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.[1]
2016-03	Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance (a consensus of the Private Company Council)	Complete	Reject	3, 68, 86	350 805 815
2016-04	Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products (a consensus of the Emerging Issues Task Force)	Complete	N/A	App D - NA GAAP	405
2016-05	Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (a consensus of the Emerging Issues Task Force)	Complete	Adopt/M	86	815
2016-06	Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force)	Complete	Reject	86	815
2016-07	Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting	Complete	Adopt/M	30R, 48, 97	323
2016-08	Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)	Complete	Reject	47	606
2016-09	Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting	Complete	Adopt/M	104R	718
2016-10	Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing	Complete	Reject	47	606
2016-11	Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update)	Complete	N/A	App D - NA GAAP	605
2016-12	Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients	Complete	Reject	47	606
2016-13	Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	Pending			326
2016-14	Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities	Pending			958
2016-15	Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)	Complete	Adopt	69	320
2016-16	Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory	Complete	Reject	101	740
2016-17	Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control	Pending			810
2016-18	Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	Complete	Adopt	1, 69	230
2016-19	Technical Corrections and Improvements	Pending			Various

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.[1]
2016-20	Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers	Pending			606
2017-01	Business Combinations (Topic 805): Clarifying the Definition of a Business	Pending			805
2017-02	Not-for-Profit Entities – Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity	Complete	Reject	App D - NA GAAP	958
2017-03	Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): SEC Update	Complete	Reject	App D - NA GAAP	250 323 326 606 842
2017-04	Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	Complete	Reject	68, 90	350 985
2017-05	Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	Pending			310 323 350 360 606 610 805 810 845 860 970
2017-06	Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force)	Complete	Reject	App D - NA GAAP	960 962 965
2017-07	Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	Complete	Reject	92, 102	220 330 715 958 980
2017-08	Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	Complete	Reject	26R	310 342 346
2017-09	Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting	Complete	Adopt/M	104R	718
2017-10	Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services (a consensus of the FASB Emerging Issues Task Force)	Complete	Adopt	22	853

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.[1]
2017-11	Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception	Pending			260 480 505 815
2017-12	Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	Partially Complete	Limited Adoption	86	220 320 815 954
2017-13	Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): SEC Update	Pending			605 606 842
2017-14	Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606) (SEC Update)	Pending			220 605 606
2017-15	Codification Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995	Complete	Reject	App D - NA GAAP	740 995
2018-01	Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842	Complete	Reject	22	842
2018-02	Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	Pending			220
2018-03	Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	Complete	Reject	26R, 30R, 32, 43R, 86, 100R	825
2018-04	Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update)	Pending			320 980
2018-05	Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)	Pending			740
2018-06	Codification Improvements to Topic 942, Financial Services—Depository and Lending	Pending			942
2018-07	Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting	Pending			718
2018-08	Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made	Pending			958
2018-09	Codification Improvements	Pending			Various
2018-10	Codification Improvements to Topic 842, Leases	Pending			842
2018-11	Leases (Topic 842): Targeted Improvements	Pending			842

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.[1]
2018-12	Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts	Pending			944
2018-13	Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement	Pending			820
2018-14	Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans	Pending			715
2018-15	Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)	Pending			350
2018-16	Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes	Pending			815
2018-17	Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities	Pending			810
2018-18	Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606	Pending			808
2018-19	Codification Improvements to Topic 326, Financial Instruments—Credit Losses	Pending			326
2018-20	Leases (Topic 842): Narrow-Scope Improvements for Lessors	Pending			842

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FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 01	Disclosure of Foreign Currency Translation Information	Superseded by FAS 8 & FAS 52			
FAS 02	Accounting for Research and Development Costs	Complete	Adopt	17	730-10
FAS 03	Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28	Superseded by FAS 154 Complete	N/A	App D - NA GAAP	
FAS 04	Reporting Gains and Losses from Extinguishment of Debt—An Amendment of APB Opinion No. 30	Superseded by FAS 145 Complete	Reject	15	
FAS 05	Accounting for Contingencies	Complete	Adopt Adopt paragraph 15	5R 72	310-10 360-10 440-10 450-10 450-20 450-30 460-10 505-10 720-20 730-20 944-20 944-40 944-60
FAS 06	Classification of Short-Term Obligations Expected to Be Refinanced—An Amendment of ARB No. 43, Chapter 3A	Complete	N/A	App D - NA GAAP	210-10 470-10
FAS 07	Accounting and Reporting by Development Stage Enterprises	Complete	Reject	17	915-10 915-205 915-210 915-215 915-225 915-230 915-235 915-340 915-605 915-810 980-10
FAS 08	Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements	Superseded by FAS 52			
FAS 09	Accounting for Income Taxes: Oil and Gas Producing Companies—An Amendment of APB Opinions 11 and 23	Superseded by FAS 19			

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FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 10	Extension of "Grandfather" Provisions for Business Combinations—An Amendment of APB Opinion No. 16	Superseded by FAS 141 Complete	 Reject	6	
FAS 11	Accounting for Contingencies: Transition Method—An Amendment of FASB Statement No. 5	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification. See FAS 5
FAS 12	Accounting for Certain Marketable Securities	Superseded by FAS 115			
FAS 13	Accounting for Leases Reject except certain guidance on operating leases, leveraged leases, and sale leaseback transactions	Complete	Adopt paragraph 15, 16(b, c, d), 19 (a, b), 23(b, c), 36, 37, 39(c), 42-47 Reject all others	22	360-10 410-20 440-10 450-10 460-10 470-10 840-10 840-20 840-30 840-40 958-810 980-840
FAS 14	Financial Reporting for Segments of a Business Enterprise	Superseded by FAS 131 Complete	 N/A	 App D - NA GAAP	
FAS 15	Accounting by Debtors and Creditors for Troubled Debt Restructuring	Complete	Adopt/M	36	310-40 450-20 470-60
FAS 16	Prior Period Adjustments	Complete	Reject	3	250-10 270-10 450-20
FAS 17	Accounting for Leases: Initial Direct Costs—An Amendment of FASB Statement No. 13	Superseded by FAS 91			
FAS 18	Financial Reporting for Segments of a Business Enterprise: Interim Financial Statements—An Amendment of FASB Statement No. 14	Superseded by FAS 131 Complete	 N/A	 App D - NA GAAP	

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 19	Financial Accounting and Reporting by Oil and Gas Producing Companies	Complete	N/A	App D - NA GAAP	932-10 932-235 932-270 932-360 932-470 932-720 932-740
FAS 20	Accounting for Forward Exchange Contracts—An Amendment of FASB Statement No. 8	Superseded by FAS 52			
FAS 21	Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises—An Amendment of APB Opinion No. 15 and FASB Statement No. 14	Superseded by FAS 131 Complete	N/A	App D - NA GAAP	
FAS 22	Changes In the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt—An Amendment of FASB Statement No. 13	Complete	Reject	22	840-30
FAS 23	Inception of the Lease—An Amendment of FASB Statement No. 13	Complete	Adopt paragraph 10 - Reject all others	22	840-10
FAS 24	Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report—An Amendment of FASB Statement No. 14	Superseded by FAS 131 Complete	N/A	App D - NA GAAP	
FAS 25	Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies—An Amendment of FASB Statement No. 19	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification See FAS 19
FAS 26	Profit Recognition on Sales-Type Leases of Real Estate—An Amendment of FASB Statement No. 13	Superseded by FAS 98			
FAS 27	Classification of Renewals or Extensions of Existing Sales-Type or Direct Financing Leases—An Amendment of FASB Statement No. 13	Complete	Reject	22	Not Directly Included in Codification Included as amendments to FAS 13
FAS 28	Accounting for Sales with Leasebacks—An Amendment of FASB Statement No. 13	Complete	Adopt/M	22	840-40
FAS 29	Determining Contingent Rentals—An Amendment of FASB Statement No. 13	Complete	Adopt paragraphs 8 & 11 - Reject all others	22	840-10

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FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 30	Disclosure of Information about Major Customers—An Amendment of FASB Statement No. 14	Superseded by FAS 131 Complete	N/A	App D - NA GAAP	
FAS 31	Accounting for Tax Benefits Related to U. K. Tax Legislation Concerning Stock Relief	Superseded by FAS 96 & FAS 109			
FAS 32	Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters—An Amendment of APB Opinion No. 20	Superseded by FAS 111			
FAS 33	Financial Reporting and Changing Prices	Superseded by FAS 89			
FAS 34	Capitalization of Interest Cost	Complete	Adopt	44	360-10 835-20
FAS 35	Accounting and Reporting by Defined Benefit Pension Plans	Complete	N/A	App D - NA GAAP	460-10 960-10 960-20 960-30 960-205 960-310 960-325 960-360 962-10 965-10
FAS 36	Disclosure of Pension Information—An Amendment of APB Opinion No. 8	Superseded by FAS 87			
FAS 37	Balance Sheet Classification of Deferred Income Taxes—An Amendment of APB Opinion No. 11	Complete	N/A	App D - NA GAAP	740-10
FAS 38	Accounting for Preacquisition Contingencies of Purchased Enterprises—An Amendment of APB Opinion No. 16	Superseded by FAS 141 Complete	Reject	68	
FAS 39	Financial Reporting and Changing Prices: Specialized Assets—Mining and Oil and Gas—A Supplement to FASB Statement No. 33	Superseded by FAS 89			
FAS 40	Financial Reporting and Changing Prices: Specialized Assets—Timberlands and Growing Timber—A Supplement to FASB Statement No. 33	Superseded by FAS 89			
FAS 41	Financial Reporting and Changing Prices: Specialized Assets—Income-Producing Real Estate—A Supplement to FASB Statement No. 33	Superseded by FAS 89			

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FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 42	Determining Materiality for Capitalization of Interest Cost—An Amendment of FASB Statement No. 34	Complete	Adopt	44	835-20
FAS 43	Accounting for Compensated Absences	Complete	Adopt	11	420-10 710-10
FAS 44	Accounting for Intangible Assets of Motor Carriers—An Amendment of Chapter 5 of ARB No. 43 and an Interpretation of APB Opinions 17 and 30	Superseded by FAS 145 Complete	N/A	App D - NA GAAP	
FAS 45	Accounting for Franchise Fee Revenue	Complete	N/A	App D - NA GAAP	850-10 952-10 952-340 952-440 952-605 952-720
FAS 46	Financial Reporting and Changing Prices: Motion Picture Films	Superseded by FAS 89			
FAS 47	Disclosure of Long-Term Obligations	Complete	N/A	App D - NA GAAP	440-10 470-10
FAS 48	Revenue Recognition When Right of Return Exists	Complete	N/A	App D - NA GAAP	450-10 460-10 605-15
FAS 49	Accounting for Product Financing Arrangements	Complete	N/A	App D - NA GAAP	470-40
FAS 50	Financial Reporting in the Record and Music Industry	Complete	N/A	App D - NA GAAP	928-10 928-340 928-405 928-430 928-440 928-605 928-720
FAS 51	Financial Reporting by Cable Television Companies	Complete	N/A	App D - NA GAAP	922-10 922-350 922-360 922-430 922-605 922-720 922-835
FAS 52	Foreign Currency Translation	Complete	Reject	23, 31	205-10 440-10 815-20 830-10 830-20 830-30

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 53	Financial Reporting by Producers and Distributors of Motion Picture Films	Superseded by FAS 139 Complete	N/A	App. I - NA GAAP	
FAS 54	Financial Reporting and Changing Prices: Investment Companies—An Amendment of FASB Statement No. 33	Superseded by FAS 89			
FAS 55	Determining whether a Convertible Security is a Common Stock Equivalent—An Amendment of APB Opinion No. 15	Superseded by FAS 111			
FAS 56	Designation of AICPA Guide and Statement of Position (SOP) 81-1 on Contractor Accounting and SOP 81-2 Concerning Hospital-Related Organizations as Preferable for Purposes of Applying APB Opinion 20—An Aamendment of FASB Statement No. 32	Superseded by FAS 111			
FAS 57	Related Party Disclosures	Complete	Adopt/M	25	850-10 958-20 958-810
FAS 58	Capitalization of Interest Cost in Financial Statements That Include Investment Accounted for by the Equity Method—An Amendment of FASB Statement No. 34	Complete	Adopt	44	835-20
FAS 59	Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units—An Amendment of FASB Statement No. 35	Superseded by FAS 75			
FAS 60	Accounting and Reporting by Insurance Enterprises	Complete	Reject paragraph 52 Reject	40R 50, 51R, 52, 53, 54R, 57, 59, 71	325-10 944-10 944-20 944-30 944-40 944-50 944-60 944-80 944-310 944-325 944-360 944-505 944-605 944-740 944-805
FAS 61	Accounting for Title Plant	Complete	Adopt/M	57	950-350
FAS 62	Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants—An Amendment of FASB Statement No. 34	Complete	Adopt/M	44	835-20

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 63	Financial Reporting by Broadcasters	Complete	N/A	App D - NA GAAP	920-10 920-350 920-405 920-440 920-845
FAS 64	Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements—An Amendment of FASB Statement No. 4	Superseded by FAS 145 Complete	Reje	15	
FAS 65	Accounting for Certain Mortgage Banking Activities	Complete	N/A	App D - NA GAAP	310-10 440-10 860-50 948-10 948-310 948-340 948-605 948-720 958-320
FAS 66	Accounting for Sales of Real Estate	Complete	Adopt/M	40R	360-20 440-10 460-10 605-10 840-10 976-10 976-310 976-330 976-605 976-705
FAS 67	Accounting for Costs and Initial Rental Operations of Real Estate Projects	Complete	Adopt	40R	970-10 970-340 970-360 970-605 970-720
FAS 68	Research and Development Arrangements	Complete	N/A	App D - NA GAAP	440-10 730-20
FAS 69	Disclosures about Oil and Gas Producing Activities—An Amendment of FASB Statements 19, 25, 33, and 39	Complete	N/A	App D - NA GAAP	932-235
FAS 70	Reporting and Changing Prices: Foreign Currency Translation—An Amendment of FASB Statement No. 33	Superseded by FAS 89			

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 71	Accounting for the Effects of Certain Types of Regulation	Complete	N/A	App D - NA GAAP	840-30 980-10 980-250 980-340 980-350 980-405 980-410 980-450 980-470 980-605 980-710 980-810 980-835 980-840
FAS 72	Accounting for Certain Acquisitions of Banking or Thrift Institutions—An Amendment of APB Opinion No. 17, an Interpretation of APB Opinions 16 and 17, and an Amendment of FASB Interpretation No. 9	Superseded by FAS 141R Complete	N/A	App D - NA GAAP	
FAS 73	Reporting a Change in Accounting for Railroad Track Structures—An Amendment of APB Opinion No. 20	Superseded by FAS 154 Complete	N/A	App D - NA GAAP	
FAS 74	Accounting for Special Termination Benefits Paid to Employees	Superseded by FAS 88			
FAS 75	Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Government Units—An Amendment of FASB Statement No. 35	Superseded by FAS 135 Complete	N/A	App D - NA GAAP	
FAS 76	Extinguishment of Debt—An Amendment of APB Opinion No. 26	Superseded by FAS 125 & FAS 140			
FAS 77	Reporting by Transferors for Transfers of Receivables with Recourse	Superseded by FAS 125 & FAS 140			
FAS 78	Classification of Obligations That Are Callable by the Creditor—An Amendment of ARB No. 43, Chapter 3A	Complete	N/A	App D - NA GAAP	470-10

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 79	Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises—An Amendment of APB Opinion No. 16	Superseded by FAS 141 Complete	Reject	6	
FAS 80	Accounting for Futures Contracts	Superseded by FAS 133 Complete	Reje	31	
FAS 81	Disclosure of Postretirement Health Care and Life Insurance Benefits	Superseded by FAS 106			
FAS 82	Financial Reporting and Changing Prices: Elimination of Certain Disclosures—An Amendment of FASB Statement No. 33	Superseded by FAS			
FAS 83	Designation of AICPA Guides and Statement of Position on Accounting by Brokers and Dealers in Securities, by Employee Benefit Plans, and by Banks as Preferable for Purposes of Applying APB Opinion 20—An Amendment of FASB Statement No. 32 and APB Opinion No. 30 and a Rescission of FASB Interpretation No. 10	Superseded by FAS 111			
FAS 84	Induced Conversions of Convertible Debt—An Amendment of APB Opinion No. 26	Complete	Adopt	15	470-20
FAS 85	Yield Test for Determining whether a Convertible Security Is a Common Stock Equivalent—An Amendment of APB Opinion No. 15	Superseded by FAS 128 Complete	N/A	App D - NA GAAP	
FAS 86	Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed	Complete	Adopt/M	17	730-10 985-20 985-330 985-705
FAS 87	Employers' Accounting for Pensions	Complete	Adopt/M	8, 89, 92, 102	420-10 715-10 715-20 715-30 715-80 805-20 835-20 958-715 960-10 962-10 965-10 980-715

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 88	Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits	Complete	Adopt/M Adopt paragraph 15	8, 89, 92, 102 11	710-10 712-10 715-30 715-60 958-10 958-715
FAS 89	Financial Reporting and Changing Prices	Complete	N/A	App [illegible] - NA GAAP	255-10
FAS 90	Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs—an Amendment of FASB Statement No. 71	Complete	N/A	App D - NA GAAP	980-360 980-835
FAS 91	Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases—An Amendment of FASB Statements No. 13, 60, and 65 and a Rescission of FASB Statement No. 17	Complete	Reject	26R, 37, 43R	310-20 440-10 840-30
FAS 92	Regulated Enterprises—Accounting for Phase-In Plans—An Amendment of FASB Statement No. 71	Complete	N/A	App D - NA GAAP	360-10 980-340
FAS 93	Recognition of Depreciation by Not-for-Profit Organizations	Complete	N/A	App D - NA GAAP	958-360 958-720
FAS 94	Consolidation of All Majority-Owned Subsidiaries—An Amendment of ARB No. 51, with Related Amendments of APB Opinion No. 18 and ARB No. 43, Chapter 12	Complete	Reject	3	810-10 840-10
FAS 95	Statement of Cash Flows	Complete	Reject	69	230-10 310-10 815-10 815-20 830-230 942-230
FAS 96	Accounting for Income Taxes	Superseded by FAS 109			
FAS 97	Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments	Complete	Reject	50, 51R, 52, 71	944-20 944-30 944-40 944-60 944-605 944-825

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 98	Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases—An Amendment of FASB Statements No. 13, 66, and 91 and a Rescission of FASB Statement No. 26 and Technical Bulletin No. 79-11	Complete	Adopt paragraphs 1-13, 17-22 (a, b, d & e) Adopt/M paragraphs 22j, 27, 30, and 31 Reject all other	22	840-40 980-840
FAS 99	Deferral of the Effective Date of Recognition of Depreciation by Not-for-Profit Organizations—An Amendment of FASB Statement No. 93	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification. See FAS 99
FAS 100	Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement No. 96—An Amendment of FASB Statement No. 96	Superseded by FAS 103, FAS 108, FAS 109			
FAS 101	Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71	Complete	N/A	App D - NA GAAP	980-20
FAS 102	Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale—An Amendment of FASB Statement No. 95	Complete	Reject	69	230-10 310-10 960-205 962-205 970-230
FAS 103	Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement No. 96—An Amendment of FASB Statement No. 96	Superseded by FAS 108 & FAS 109			
FAS 104	Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows From Hedging Transactions—An Amendment of FASB Statement No. 95	Complete	Reject	69	Not Directly Included in Codification. Included as amendments to FAS 95
FAS 105	Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk	Superseded by FAS 133 Complete	 Adopt/M	 27, 31	

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FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 106	Employers' Accounting for Postretirement Benefits Other Than Pensions	Complete	Adopt/M	14, 92	420-10 710-10 715-10 715-20 715-30 715-60 715-70 715-80 805-20 958-715 980-715
FAS 107	Disclosures about Fair Value of Financial Instruments	Complete	Adopt	100R	310-10 825-10 942-470 958-320
FAS 108	Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement No. 96	Superseded by FAS 109			
FAS 109	Accounting for Income Taxes	Complete	Adopt paragraphs 256-258 Adopt/M	22 10, 10R, 101	225-20 272-10 450-10 718-740 740-10 740-20 740-30 805-740 830-20 830-740 840-30 852-740 942-740 944-740 946-740 958-720 980-740 995-740
FAS 110	Reporting by Defined Benefit Pension Plans of Investment Contracts—An Amendment of FASB Statement No. 35	Complete	N/A	App D - NA GAAP	960-325
FAS 111	Rescission of FASB Statement No. 32 and Technical Corrections	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Technical Amendments to Various Standards
FAS 112	Employers' Accounting for Postemployment Benefits—An Amendment of FASB Statements No. 5 and 43	Complete	Adopt	11	420-10 712-10

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FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 113	Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts	Complete	Adopt/M	61R, 62R	450-10 944-20 944-30 944-40 944-210 944-310 944-340 944-405 944-605 944-825
FAS 114	Accounting by Creditors for Impairment of a Loan—An Amendment of FASB Statements No 5 and 15	Complete	Adopt FAS amendments and paragraphs 35 and 36 of CON 6 Adopt paragraphs 9, 22, and 25 Reject paragraphs 6d, 13 & 21 Adopt/M	5R 36 37	310-10 310-30 310-40
FAS 115	Accounting for Certain Investments in Debt and Equity Securities	Complete	Reject	26R, 30R, 32, 43R	320-10 942-320
FAS 116	Accounting for Contributions Received and Contributions Made	Complete	Adopt	67	440-10 605-10 720-25 835-10 958-10 958-30 958-205 958-310 958-320 958-325 958-360 958-450 958-605
FAS 117	Statements of Not-for-Financial-Profit Organizations	Complete	N/A	App D - NA GAAP	954-225 958-205 958-210 958-225 958-230 958-320 958-720
FAS 118	Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures	Complete	Adopt for troubled debt re-structuring Adopt/M	36 37	310-10 310-40

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 119	Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments	Superseded by FAS 133 Complete	 Adopt/M	31, [illegible]0R	
FAS 120	Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts	Complete	Reject	50, 51[illegible] 52	944-20
FAS 121	Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of	Superseded by FAS 144 Complete	 Adopt [illegible] Adopt paragraphs 12,14a & 14b Reject, paragraphs 13,14c & d	 40R 68	
FAS 122	Accounting for Mortgage Servicing Rights	Superseded by FAS 125 & FAS 140			
FAS 123	Accounting for Stock-Based Compensation	Superseded by FAS 123(R) Complete	 Reject	 13	
FAS 123(R)	Share-Based Payment	Complete	Adopt/M	104R	260-10 505-60 718-10 718-20 718-30 718-50 718-740 815-10
FAS 124	[illegible]g for Certain Investments Held by Not-For-Profit Organizations	Complete	N/A	App D - NA GAAP	954-320 958-205 958-320 958-325

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 125	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	Superseded by FAS 140 Complete	 Reject paragraph 83 Adopt 9-13, 15-17, 25, 27-30, 66-71 Reject paragraph [illegible] Adopt/M[illegible] Securitizations Adopt/M	 [illegible] [illegible] 33 18	
FAS 126	Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities	Complete	Reject	100R	825-10
FAS 127	Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125	Superseded by FAS 140 Complete	 Reject	 18	
FAS 128	Earnings per Share	Complete	N/A	App D - NA GAAP	205-20 250-10 260-10
FAS 129	Disclosure of Information about Capital Structure	Complete	Adopt paragraphs 6, 7 and 9, rejecting all others	72	470-10 505-10
FAS 130	Reporting Comprehensive Income	Complete	N/A	App D - NA GAAP	205-10 220-10 323-10 505-10 715-30 965-205
FAS 131	Disclosures about Segments of an Enterprise and Related Information	Complete	N/A	App D - NA GAAP	280-10

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 132	Employers' Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88 and 106	Superseded by FAS 132(R)			230-10
		Complete	Adopt/M	8, 12, 14, 89	
FAS 132(R)	Employers' Disclosures about Pensions and Other Postretirement Benefits—An Amendment of FASB Statements No. 87, 88 and 106	Complete	Adopt/M	14, 89, 102	450-20 715-20 715-70 715-80 958-715
			Adopt paragraphs 5(a), 5(b), 5(h), 5(i), and 8(m) as modified by FAS 158.	11	
FAS 133	Accounting for Derivative Instruments and Hedging Activities	Complete	Adopt/M	86	220-10 310-10 440-10 815-10 815-15 815-20 815-25 815-30 815-35 960-325
			Adopt/M regarding short sales	103R	
FAS 134	Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise an amendment of FASB Statement No. 65	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included as amendments to FAS 65
FAS 135	Rescission of FASB Statement No. 75 and Technical Corrections	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Technical Amendments to Various Standards
FAS 136	Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others	Complete	N/A	App D - NA GAAP	958-20 958-30 958-205 958-225 958-605
FAS 137	Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133	Complete	Reject	86	*Not Explicitly Included in Codification. See FAS 133*

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FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 138	Accounting for Certain Derivative Instruments and Certain Hedging Activities—An Amendment of FASB Statement No. 133	Complete	Adopt/M	86	815-10 815-20 815-25 815-30
FAS 139	Rescission of FASB Statement No. 53 and amendments to FASB Statements No. 63, 89 and 121	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included as amendments to FAS 63, FAS 89 and FAS 121
FAS 140	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, A Replacement of FASB Statement 125	Superseded by FAS 166 Complete	 Adopt/M	 91R, 103R	310-10 320-10 405-20 460-10 470-50 815-20 840-30 860-10 860-20 860-30 860-50
FAS 141	Business Combinations – June 2001	Superseded by FAS 141 revised in 12/07 Complete	 Reject	 68	
FAS 141 (Revised)	Business Combinations – December 2007	Pending			805-10 805-20 805-30 805-40 805-50 805-740 958-805
FAS 142	Goodwill and Other Intangible Assets	Complete	Reject	68	205-20 280-10 323-10 350-10 350-20 350-30
FAS 143	Accounting for Asset Retirement Obligations	Complete	N/A	App D - NA GAAP	360-10 410-20 450-20 835-20 840-10 840-40 980-410

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FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 144	Accounting for the Impairment or Disposal of Long-Lived Assets	Complete	Reject paragraphs 44.a.-44.c.	24	205-10 205-20 225-20 360-10 840-20 840-30 855-10 958-225 958-360
FAS 145	Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections	Complete	Adopt paragraph 9.c.c. Reject all others	22	470-50
FAS 146	Accounting for Costs Associated with Exit or Disposal Activities	Complete	Adopt paragraphs 420-10-25-11 through 13 and 420-10-30-8 All others rejected	22 24	280-10 420-10 450-20 712-10 715-30 840-10 912-275 958-225
FAS 147	Acquisitions of Certain Financial Institutions—An Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9	Superseded by FAS 141(R) Complete	N/A	App D - NA GAAP	
FAS 148	Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123	Superseded by FAS 123(R) Complete	Reject	13	
FAS 149	Amendment of Statement 133 on Derivative Instruments and Hedging Activities	Complete	Paragraphs 4 and 25 adopted. Reject all others.	86	815-10
FAS 150	Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity	Complete	Adopted as referenced in SSAP No. 104R only. All other rejected as not applicable.	104R	260-10 460-10 480-10 835-10

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FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 151	Inventory Costs—An Amendment of ARB No. 43, Chapter 4	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included as amendments to ARB 43, Chp 4
FAS 152	Accounting for Real Estate Time-Sharing Transactions—An Amendment of FASB Statements No. 66 and 67	Complete	Adopt/	40R	Not Directly Included in Codification. Included as amendments to FAS 66 and FAS 67
FAS 153	Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29	Complete	Adopt/M	90, INT 00-26	Not Directly Included in Codification. Included as amendments to APB 29
FAS 154	Accounting Changes and Error Corrections—A Replacement of APB Opinion No. 20 and FAS Statement No. 3	Complete	Reject	3	250-10 835-20
FAS 155	Accounting for Certain Hybrid Financial Instruments—An Amendment of FASB Statements No. 133 and 140	Pending			815-15
FAS 156	Accounting for Servicing of Financial Assets—An Amendment of FASB Statement No. 140	Complete	Adopt/M	91R, 103R	860-50
FAS 157	Fair Value Measurements	Complete	Adopt/M	100R	250-10 270-10 815-10 820-10
FAS 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB Statements No. 87, 88, 106 and 132(R)	Complete	Adopt/M Paragraphs 1-7, 16-17, Appendices D and E. Adopt/M Paragraphs 1-7, 16-17, Appendices C and E.	92 102	715-20 715-30 715-60 958-715
FAS 159	The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115	Complete	Reject	App D - NA GAAP	470-20 825-10 954-825
FAS 160	Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification.

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 161	Disclosures about Derivative Instruments and Hedging Activities—An Amendment of FASB Statement No. 133	Pending			815-10
FAS 162	The Hierarchy of Generally Accepted Accounting Principles	Replaced by FAS 168 Complete	Adopt/M	Preamble	
FAS 163	Accounting for Financial Guarantee Insurance Contracts—An Interpretation of FASB Statement No. 60	Pending			944-20 944-40 944-310 944-605
FAS 164	Not-for-Profit Entities: Mergers and Acquisitions—Including an Amendment of FASB Statement No. 142	Pending			740-10 805-10 805-50 954-805 954-810 958-805 958-810
FAS 165	Subsequent Events	Complete	Adopt/M	9	855-10
FAS 166	Accounting for Transfers of Financial Assets—An Amendment of FASB Statement No. 140	Complete (ASU 2009-16)	Adopt/M	103R	860-10
FAS 167	Amendments to FASB Interpretation No. 46(R)	Pending (ASU 2009-17)			810-10
FAS 168	The *FASB Accounting Standards Codification™* and the Hierarchy of Generally Accepted Accounting Principles—A Replacement of FASB Statement No. 162	Complete	Adopt	Preamble	105-10

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB INTERPRETATIONS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FIN 01 (APB 20)	Accounting Changes Related to the Cost of Inventory	Complete	N/A	App D - NA GAAP	250-10 330-10
FIN 02 (APB 21)	Imputing Interest on Debt Arrangements Made under the Federal Bankruptcy Act	Superseded by FAS 15			
FIN 03 (APB 8)	Accounting for the Cost of Pension Plans subject to the Employee Retirement Income Security Act of 1974	Superseded by FAS 87			
FIN 04 (FASB 2)	Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method	Superseded by FAS 141R Complete	Reject	68	
FIN 05 (FASB 2)	Applicability of FASB Statement No. 2 to Development Stage Enterprises	Superseded by FAS			
FIN 06 (FASB 2)	Applicability of FASB Statement No. 2 to Computer Software	Complete	Adopt	17	730-10 985-20
FIN 07 (FASB 7)	Applying FASB Statement No. 7 in Financial Statements of Established Operating Enterprises	Complete	Reject	17	915-10 915-810
FIN 08 (FASB 6)	Classification of a Short-Term Obligation Repaid Prior to Being Replaced by a Long-Term Security	Complete	N/A	App D - NA GAAP	470-10
FIN 09 (APB 16 & 17)	Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method	Superseded by FAS 141R Complete	N/A	App D - NA GAAP	
FIN 10 (FASB 12	Application of FASB Statement No. 12 to Personal Financial Statements	Superseded by FAS 83			
FIN 11 (FASB 12)	Changes in Market Value after the Balance Sheet Date	Superseded by FAS 115			
FIN 12 (FASB 12)	Accounting for Previously Established Allowance Accounts	Superseded by FAS 115			
FIN 13 (FASB 12)	Consolidation of a Parent and Its Subsidiaries Having Different Balance Sheet Dates	Superseded by FAS 115			
FIN 14 (FASB 5)	Reasonable Estimation of the Amount of a Loss	Complete	Adopt/M	5R	450-20
FIN 15 (FASB 8)	Translation of Unamortized Policy Acquisition Costs by a Stock Life Insurance Company	Superseded by FAS 52			
FIN 16 (FASB 12)	Clarification of Definitions and Accounting for Marketable Equity Securities That Become Nonmarketable	Superseded by FAS 115			
FIN 17 (FASB 8)	Applying the Lower of Cost or Market Rule in Translated Financial Statements	Superseded by FAS 52			
FIN 18 (APB 28)	Accounting for Income Taxes in Interim Periods	Complete	Reject	10, 10R, 101	225-20 740-270

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB INTERPRETATIONS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FIN 19 (FASB 13)	Lessee Guarantee of the Residual Value of Leased Property	Complete	Reject	22	460-10 840-10
FIN 20 (APB 20)	Reporting Accounting Changes under AICPA Statements of Position	Superseded by FAS 154 Complete	 Reject	 3	
FIN 21 (FASB 13)	Accounting for Leases in a Business Combination	Complete	Reject	22	840-10 840-30 958-805
FIN 22 (APB 11 & 23)	Applicability of Indefinite Reversal Criteria to Timing Differences	Superseded by FAS 96 & FAS 109			
FIN 23 (FASB 13)	Leases of Certain Property Owned by a Governmental Unit or Authority	Complete	Reject	22	840-10
FIN 24 (FASB 13)	Leases Involving Only Part of a Building	Complete	Reject	22	840-10
FIN 25 (APB 2, 4, 11, & 16)	Accounting for an Unused Investment Tax Credit	Superseded by FAS 96 & FAS 109			
FIN 26 (FASB 13)	Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease	Complete	Reject	22	840-30
FIN 27 (FASB 13 & APB 30)	Accounting for a Loss on a Sublease	Complete	Adopt	22	Glossary Term
FIN 28 (APB 15 & 25)	Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans	Superseded by FAS 123(R) Complete	 Adopt N/A	 13 104R	
FIN 29 (APB 23 & 24)	Reporting Tax Benefits Realized on Disposition of Investments in Certain Subsidiaries and Other Investees	Superseded by FAS 96 & FAS 109			
FIN 30 (APB 29)	Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets	Complete	Adopt/M	28, 95	450-10 605-40 740-10
FIN 31 (APB 15 & FASB 28)	Treatment of Stock Compensation Plans in EPS Computations	Superseded by FAS 128 Complete	 N/A	 App D - NA GAAP	
FIN 32 (APB 2, 4 & 11)	Application of Percentage Limitations in Recognizing Investment Tax Credit	Superseded by FAS 96 & FAS 109			
FIN 33 (FASB 34)	Applying FASB Statement No. 34 to Oil and Gas Producing Operations Accounted for by the Full Cost Method	Complete	N/A	App D - NA GAAP	932-835

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB INTERPRETATIONS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FIN 34 (FASB 5)	Disclosure of Indirect Guarantees of Indebtedness of Others	Superseded by FIN 45 Complete	Adopt	5R	
FIN 35 (APB 18)	Criteria for Applying the Equity Method of Accounting for Investments in Common Stock	Complete	Adopt	46, 8[illegible]97	323-10
FIN 36 (FASB 19)	Accounting for Exploratory Wells in Progress at the End of a Period	Complete	N/A	App D - NA GAAP	932-360
FIN 37 (FASB 52)	Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity	Complete	Reject	23	830-30
FIN 38 (APB 25)	Determining the Measurement Date for Stock Option, Purchase and Award Plans Involving Junior Stock	Superseded by FAS 123(R) Complete	Adopt N/A	13 104R	
FIN 39 (APB 10 & FASB 105)	Offsetting of Amounts Related to Certain Contracts	Complete	Adopt/M	64	210-20 450-30 815-10
FIN 40 (FASB 12, 60, 97 & 113)	Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises	Complete	Reject	51R, 52	Not Directly Included in Codification. Issue Addressed in FAS 168 and APB 22
FIN 41 (APB 10 and FIN 39)	Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements	Complete	Reject	64, 103R	210-20 860-30
FIN 42 (FASB 116)	Accounting for Transfers of Assets in Which a Not-for-Profit Organization is Granted Variance Power	Superseded by FAS 136 Complete	N/A	App D - NA GAAP	
FIN 43	Real Estate Sales	Complete	Adopt/M	40R, 77	360-20 978-10
FIN 44 (APB 25)	Accounting for Certain Transactions involving Stock Compensation	Superseded by FAS 123(R)	N/A	104R	
FIN 45 (FASB 5, 57 & 107)	Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others	Complete	Adopt/M	5R	460-10 840-10 850-10

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB INTERPRETATIONS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FIN 46 (ARB 51)	Consolidation of Variable Interest Entities	Superseded by FIN 46(R)			
		Complete	Reject	3	
FIN 46(R)	Consolidation of Variable Interest Entities	Pending			323-10 712-10 715-30 715-60 810-10 860-10 954-810 958-810
FIN 47 (FASB 143)	Accounting for Conditional Asset Retirement Obligations	Comple	N/A	App D - NA GAAP	410-20 450-20
FIN 48 (FASB 109)	Accounting for Uncertainty in Income Taxes	Complete	Reject	101	740-10 740-270 805-740 835-10

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
APB OPINIONS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
APB 1	New Depreciation Guidelines and Rules	Superseded by FAS 96 and 109			
APB 2	Accounting for the "Investment Credit"	Complete	Adopt/M paragraphs 9-15, Reject all others	10, 10[illegible], 10[illegible]	740-10
APB 3	The Statement of Source and Application of Funds	Superseded by APB 19			
APB 4	Accounting for the "Investment Credit" (Amending No. 2)	Complete	Reje[illegible]	[illegible], 10R, 101	740-10
APB 5	Reporting of Leases in Financial Statements of Lessee	Superseded by FAS 13			
APB 6	Status of Accounting Research Bulletins	Comple[illegible]	[illegible]dopt/M Paragraph 12 Reject all others Reject paragraph 16	72 28, 95	Not Directly Included in Codification. Included as amendments to ARB 43
APB 7	Accounting for Leases in Financial Statements of Lessors	S[illegible]perseded by FAS 13			
APB 8	Accounting for the Cost of Pension Plans	Superseded by FAS 87			
APB 9	Reporting the Results of Operations	Complete	Reject paragraphs 1-19 and 26-27 Adopt paragraph 28 Paragraphs 20-25 and 29 superseded by APB 20 & 30 and FAS 16	3 72	225-10 225-20 250-10 505-10

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
APB OPINIONS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Accts. Stds. Codification Topic-Subt.
APB 10	Omnibus Opinion—1966	Complete	Adopt paragraphs 10 & 11 Reject paragraph 12 Adopt/M paragraphs 1,7 & 13 Adopt paragraph 6 All other paragraphs rejected	72 64 10, 10R, 101	210-20 605-10 740-10
APB 11	Accounting for Income Taxes	Superseded by FAS 96 & 109			
APB 12	Omnibus Opinion—1967	Complete	Adopt paragraphs 4 & 5 Adopt/M paragraphs 9 & 10 Adopt/M paragraphs 2 and 3 Adopt paragraphs 6, 6A and 7 Adopt/M paragraphs 6 - 8 Adopt paragraphs 16 & 17 Paragraphs 11-15 superseded	19 72 5R 11 14 15	210-10 310-10 360-10 505-10 710-10 715-20 835-30
APB 13	Amending Paragraph 6 of APB Opinion No. 9, Application to Commercial Banks	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included as amendments to APB 9

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
APB OPINIONS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Accts. Stds. Codification Topic-Subt.
APB 14	Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants	Complete	Adopt	15	470-20 505-10
APB 15	Earnings Per Share	Superseded by FAS 128 Complete	N/A	App [illegible] NA [illegible]	
APB 16	Business Combinations	Superseded by FAS 141 Complete	Rej[illegible]	68	
APB 17	Intangible Assets	Superseded by FAS 14[illegible] [illegible]omplete	Reject	68	
APB 18	The Equity Method of Accounting for Investments in Common Stock	Co[illegible]plete	Reject	46, 88, 97	225-20 250-10 260-10 323-10 325-20 460-10 810-10 850-10 958-20 958-810 970-810
APB 19	Reporting Changes in F[illegible]nancial Position	Superseded by FAS 95			
APB 20	Accounting Chang[illegible]	Superseded by FAS 154 Complete	Reject	3	
APB 21	Interest on Rec[illegible]ivables and Payables	Complete	Adopt/M	15	310-10 470-10 740-10 835-30
APB 22	[illegible]isclosure of Accounting Policies	Complete	Adopt	1	235-10

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
APB OPINIONS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Accts. Stds. Codification Topic-Subt.
APB 23	Accounting for Income Taxes—Special Areas	Complete	Adopt paragraphs 1-3, 5-9, 12-13, 15-18 Reject paragraphs 19-23, 25, 31-33	10R	
			Adopt paragraphs 1-3, 5-9, 12-15-18 Reject paragraphs 19-23, 31-33	101	740-30 942-740
APB 24	Accounting for Income Taxes—Investments in Common Stock Accounted for by the Equity Method (Other than Subsidiaries and Corporate Joint Ventures)	Superseded by FAS 96 & 109			
APB 25	Accounting for Stock Issued to Employees	Superseded by FAS 123(R)			
		Complete	Adopt/M	13	
			N/A	104R	
APB 26	Early Extinguishment of Debt	Complete	Adopt/M	15	470-50 850-10
APB 27	Accounting for Lease Transactions by Manufacturer or Dealer Lessor	Superseded by FAS 13			
APB 28	Interim Financial Reporting	Complete	Adopt paragraphs 19 & 20 Reject all others	10, 10R, 101	225-20 250-10 270-10 450-10 740-270
APB 29	Accounting for Nonmonetary Transactions	Complete	Adopt/M	28, 95	605-40 610-30 845-10
		Amended by FAS 153			
APB 30	Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions	Complete	Reject	24	225-20 830-10
APB 31	Disclosure of Lease Commitments by Lessees	Superseded by FAS 13			

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
ACCOUNTING RESEARCH BULLETINS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
ARB 43	Restatement and Revision of Accounting Research Bulletins:				
	Chapter 1	Complete	Reject	72	310-10 505-10 605-10 850-10
	Chapter 2A	Complete	Adopt	1	205-10
	Chapter 2B	Deleted by APB 9			
	Chapter 3A	Complete	Reject	20	210-10 310-10 340-10 470-10 958-210
	Chapter 3B	Replaced by APB 10			
	Chapter 4	Complete	N/A	App D - NA GAAP	330-10 440-10 450-20
	Chapter 5	Deleted by FAS 142			
	Chapter 6	Deleted by FAS 5			
	Chapter 7A	Complete	Adopt/M	72	852-20
	Chapter 7B	Complete	Adopt paragraphs 1-4 and paragraphs 10-16 Adopt paragraphs 1-9	72 28, 95	505-20
	Chapter 7C	Deleted by ARB 48			
	Chapter 8	Deleted by APB 9			
	Chapter 9A	Complete	Reject	19	Not Explicitly Included in Codification.
	Chapter 9B	Replaced by APB 6			
	Chapter 9C	Complete	Reject	19	360-10
	Chapter 10A	Complete	Reject	40R	720-30
	Chapter 10B	Deleted by APB 11			

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
ACCOUNTING RESEARCH BULLETINS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
ARB 43 continued	Chapter 11	Complete	Reject	20	912-10 912-20 912-210 912-225 912-275 912-310 912-330 912-405 912-605
	Chapter 12	Complete	Reject	23	Not Directly Included in Codification. Issue Addressed in FAS 133
	Chapter 13A	Deleted by APB 8			
	Chapter 13B	Deleted by FAS 123(R)			
		Complete	Adopt/M N/A	13 104R	
	Chapter [illegible]	Deleted by APB 5			
	Chapter [illegible]	Deleted by APB 26			
ARB 44	Declining-Balance Depreciation	Superseded by ARB 44 (Rev.)			
ARB 44 (Rev.)	Declining-Balance Depreciation	Superseded by FAS 96 & 109			
ARB 45	Long-Term Construction-Type Contracts	Complete	N/A	App D - NA GAAP	440-10 605-35
ARB 46	Discontinuance of Dating Earned Surplus	Complete	Adopt/M	72	Not Directly Included in Codification. Included as amendments to ARB 43, Chapter 7a
ARB 47	Accounting for Costs of Pension Plans	Superseded by APB 8			
ARB 48	Business Combinations	Superseded by APB 16			
ARB 49	Earnings per Share	Superseded by APB 9			
ARB 50	Contingencies	Superseded by FAS 5			

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PRE-CODIFICATION STANDARDS - CATEGORY A GAAP ACCOUNTING RESEARCH BULLETINS					
GAAP Pronounce-ment	**Name**	**Status**	**Disposition**	**Statutory Reference**	**Acctg. Stds. Codification Topic-Subt.**
ARB 51	Consolidated Financial Statements	Complete	Reject	3	505-10 810-10 850-10 860-10 958-810 970-810

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PRE-CODIFICATION STANDARDS – CATEGORY B GAAP
FASB TECHNICAL BULLETINS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
TB79-1 (Revised)	Purpose and Scope of FASB Technical Bulletins and Procedures for Issuance	Complete	N/A	App D - NA GAAP	Not Included in Codification. No Longer Applicable or Relevant.
TB79-2	Computer Software Costs	Superseded by FAS 86			
TB79-3	Subjective Acceleration Clauses in Long-Term Debt Agreements	Complete	N/A	App D - NA GAAP	470-10
TB79-4	Segment Reporting of Puerto Rican Operations	Complete	N/A	App D - NA GAAP	280-10
TB79-5	Meaning of the Term "Customer" as it Applies to Health Care Facilities under FASB Statement No. 14	Complete	N/A	App D - NA GAAP	954-280
TB79-6	Valuation Allowances Following Debt Restructuring	Superseded by FAS 114			
TB79-7	Recoveries of a Previous Writedown under a Troubled Debt Restructuring Involving a Modification of Terms	Superseded by FAS 114			
TB79-8	Applicability of FASB Statements 21 and 33 to Certain Brokers and Dealers in Securities	Superseded by FAS 131 Complete	N/A	App D - NA GAAP	
TB79-9	Accounting in Interim Periods for Changes in Income Tax Rates	Complete	Reject	10, 10R, 101	740-270
TB79-10	Fiscal Funding Clauses in Lease Agreements	Complete	Reject	22	840-10
TB79-11	Effect of a Penalty on the Term of a Lease	Superseded by FAS 98			
TB79-12	Interest Rate Used in Calculating the Present Value of Minimum Lease Payments	Complete	Reject	22	Glossary Terms
TB79-13	Applicability of FASB Statement No. 13 to Current Value Financial Statements	Complete	Reject	22	840-10
TB79-14	Upward Adjustment of Guaranteed Residual Values	Complete	Reject	22	840-30
TB79-15	Accounting for Loss on a Sublease Not Involving the Disposal of a Segment	Complete	Adopt	22	840-20 840-30
TB79-16 (Revised)	Effect of a Change in Income Tax Rate on the Accounting for Leveraged Leases	Complete	Adopt	22	840-30
TB79-17	Reporting Cumulative Effect Adjustment from Retroactive Application of FASB Statement No. 13	Complete	Reject	22	Not Explicitly Included in Codification. See FAS 13

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PRE-CODIFICATION STANDARDS – CATEGORY B GAAP
FASB TECHNICAL BULLETINS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
TB79-18	Transition Requirement of Certain FASB Amendments and Interpretations of FASB Statement No. 13	Complete	Reject	22	Not Explicitly Included in Codification. See FAS 13
TB79-19	Investor's Accounting for Unrealized Losses on Marketable Securities Owned by an Equity Method Investee	Complete	Reject	46, [illegible] 97	Not Directly Included in Codification. Included within FAS 115 and FAS 133
TB80-1	Early Extinguishment of Debt through Exchange for Common or Preferred Stock	Complete	Adopt/M	15	470-50
TB80-2	Classification of Debt Restructurings by Debtors and Creditors	Complete	Adopt	36	310-40 470-60
TB81-1	Disclosure of Interest Rate Futures Contracts and Forward and Standby Contracts	Superseded by FAS 80			
TB81-2	Accounting for Unused Investment Tax Credits Acquired in a Business Combination Accounted for by the Purchase Method	Superseded by FAS 96 FAS 109			
TB81-3	Multi-Employer Pension Plan Amendments Act of 1980	Superseded by FAS 111			
TB81-4	Classification as Monetary or Non-monetary Items	Superseded by FAS 89			
TB81-5	Offsetting Interest Cost to Be Capitalized with Interest Income	Superseded by FAS 62			
TB81-6	Applicability of Statement 15 to Debtors in Bankruptcy Situations	Complete	Adopt	36	470-60
TB82-1	Disclosure of the Sale or Purchase of Tax Benefits through Tax Leases	Complete	Adopt	10, 10R, 101	Not Directly Included in Codification. Included within FAS 109, APB 22 and APB 30
TB82-2	Accounting for the Conversion of Stock Options into Incentive Stock Options as a Result of the Economic Recovery Tax Act of 1981	Superseded by FAS 123 and 123(R) Complete	 N/A	 App D - NA GAAP	
TB83-1	Accounting for the Reduction in the Tax Basis of an Asset Caused by the Investment Tax Credit	Superseded by FAS 96 & FAS 109			
TB84-1	Accounting for Stock Issued to Acquire the Results of a Research and Development Arrangement	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within FAS 141R

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PRE-CODIFICATION STANDARDS – CATEGORY B GAAP
FASB TECHNICAL BULLETINS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
TB84-2	Accounting for the Effects of the Tax Reform Act of 1984 on Deferred Income Taxes Relating to Domestic International Sales Corporations	Superseded by FAS 96 & FAS 109			
TB84-3	Accounting for the Effects of the Tax Reform Act of 1984 on Deferred Income Taxes of Stock Life Insurance Enterprises	Superseded by FAS 96 & FAS 109			
TB84-4	In-Substance Defeasance of Debt	Superseded by FAS 125 & FAS 140			
TB85-1	Accounting for the Receipt of Federal Home Loan Mortgage Corporation Participating Preferred Stock	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within APB 29
TB85-2	Accounting for Collateralized Mortgage Obligations (CMOs)	Superseded by FAS 125 & FAS 140			
TB85-3	Accounting for Operating Leases with Scheduled Rent Increases	Complete	Adopt	22	840-20
TB85-4	Accounting for Purchases of Life Insurance	Complete	Adopt/M	21R	325-30
TB85-5	Issues Relating to Accounting for Business Combinations, Including Costs of Closing Duplicate Facilities of an Acquirer, Stock Transactions between Companies under Common Control, Downstream Mergers Involving Parent Company Stock, Identical Common Shares for a Pooling of Interests, and Pooling of Interests by Mutual and Cooperative Enterprises	Superseded by FAS 141R Complete	 Reject	 68	
TB85-6	Accounting for a Purchase of Treasury Shares at a Price Significantly in Excess of the Current Market Price of the Shares and the Income Statement Classification of Costs Incurred in Defending Against a Takeover Attempt	Complete	Reject	72	225-20 505-30
TB86-1	Accounting for Certain Effects of the Tax Reform Act of 1986	Superseded by FAS 96 & FAS 109			
TB86-2	Accounting for an Interest in the Residual Value of a Leased Asset Acquired by a Third Party or Retained by a Lessor That Sells the Related Minimum Rental Payments	Complete	Adopt	22	360-10 840-30
TB87-1	Accounting for a Change in Method of Accounting for Certain Postretirement Benefits	Superseded by FAS 106			
TB87-2	Computation of a Loss on an Abandonment	Complete	N/A	App D - NA GAAP	980-360 980-740
TB87-3	Accounting for Mortgage Servicing Fees and Rights	Complete	N/A	App D - NA GAAP	860-50

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PRE-CODIFICATION STANDARDS – CATEGORY B GAAP
FASB TECHNICAL BULLETINS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
TB88-1	Issues Relating to Accounting for Leases: Time Pattern of the Physical Use of the Property in an Operating Lease, Lease Incentives in an Operating Lease, Applicability of Leveraged Lease Accounting to Existing Assets of the Lessor, Money-Over-Money Lease Transactions, and Wrap Lease Transactions	Complete	Adopt paragraphs 1—12 Reject all others	22	840-10 840-20 840-30 840-40
TB88-2	Definition of a Right of Setoff	Superseded by FIN 39			
TB90-1	Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts	Complete	N/A	App D - NA GAAP	460-10 605-20
TB94-1	Application of Statement 115 to Debt Securities Restructured in a Troubled Debt Restructuring	Complete	Reject	36	320-10
TB97-1	Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option (Amended with FAS 123(R) - not superseded.)	Complete	Adopt/M	104R	718-50
TB01-1	Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets	Complete	Reject	91R, 103R	Glossary Terms

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS[2]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FAS 13-1	Accounting for Rental Costs Incurred during a Construction Period	Not Board Directed			840-20
FSP FAS 13-2	Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction	Complete	Adopt	22	Not Directly Included in Codification. Included within FAS 13
FSP FAS 19-1	Accounting for Suspended Well Costs	Complete	N/A	App D - NA GAAP	932-360
FSP FAS 97-1	FSP FAS 97-1—Situations in Which Paragraphs 17(b) and 20 of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, Permit or Require Accrual of an Unearned Revenue Liability	Not Board Directed			944-605
FSP FAS 106-1	Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003	Superseded by FSP FAS 106-2			
FSP FAS 106-2	Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003	Complete	Adopt/M	INT 04-17	715-60 740-10
FSP FAS 107-1 and APB 28-1	Interim Disclosures about Fair Value of Financial Instruments	Complete	Adopt	100R	Not Explicitly Included in Codification.
FSP FAS 109-1	Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004	Complete	Adopt	101	740-10
FSP FAS 109-2	Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004	Complete	Reject	App D - NA GAAP	Not Explicitly Included in Codification. See FAS 109
FSP FAS 115-1 and FAS 124-1	The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments	Complete	Adopt/M	26R, 32, 34 INT 06-07	320-10 325-20 958-325

[2] On December 5, 2009, the Statutory Accounting Principles (E) Working Group adopted revisions to the NAIC *Accounting Practices and Procedures Manual* to refer to the FASB Accounting Standards Codification as prescribed in *FAS 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FAS 168). With the issuance of FAS 168, and the establishment of the FASB Codification, the previous GAAP hierarchy established in *FAS 162, The Hierarchy of Generally Accepted Accounting Principles* (FAS 162) has been eliminated. As a result of FAS 168, the FASB Accounting Standards Codification is the source of authoritative accounting principles recognized by the FASB. (SEC guidance included within the codification is provided for convenience and relates only to SEC entities.) Pursuant to previous decisions by the Statutory Accounting Principles (E) Working Group, FASB Staff Positions (FSPs) issued after May 9, 2008, will be reviewed as part of the statutory accounting maintenance review process. FSPs issued prior to May 9, 2008, will be reviewed as part of the maintenance process if considered to be "Board-directed". (Board-directed FSPs were issued to provide narrow and limited revisions to the FASB statements or FASB interpretations formerly provided in FASB Technical Bulletins.) FSPs that were not considered "Board-directed" were considered to provide application guidance similar to that found in FASB Staff Implementation Guides and Staff Announcements and were previously classified (pre-FAS 162) as NAIC Level 5 guidance. Due to this Level 5 classification, these FSPs were not reviewed as part of the statutory accounting maintenance review process.

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS[2]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FAS 115-2 and 124-2	Recognition and Presentation of Other-Than-Temporary Impairments	Pending			320-10
FSP FAS 117-1	Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds	Complete	N/A	App D - NA GAAP	958-205
FSP FAS 123(R)-1	Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)	Complete	Adopt/M	104R	718-10
FSP FAS 123(R)-2	Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)	Not Board Directed Complete	Adopt/M	104R	718-10
FSP FAS 123(R)–3	Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards	Not Board Directed Complete	Rejected	104R	Not Explicitly Included in Codification. See FAS 123R
FSP FAS 123(R)-4	Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event	Complete	Adopt/M	104R	718-10
FSP FAS 123(R)-5	Amendment of FASB Staff Position FAS 123(R)-1	Complete	Adopt/M	104R	Not Directly Included in Codification. Included within FAS 123R-1
FSP FAS 123(R)-6	Technical Corrections of FASB Statement No. 123(R)	Complete	Adopt/M	104R	Not Directly Included in Codification. Included within FAS 123R
FSP FAS 126-1	Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within APB 28, FAS 69, FAS 109, FAS 126, FAS 131, FAS 132R and 141R
FSP FAS 129-1	Disclosure Requirements under FASB Statement No. 129 Relating to Contingently Convertible Securities	Not Board Directed			470-10 505-10 815-10

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS[2]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FAS 132(R)-1	Employers' Disclosures about Postretirement Benefit Plan Assets	Complete	Revisions to paragraph 5d of FAS 132 adopted. Reject all others.	92, 102	Not Explicitly Included in Codification.
FSP FAS 133-1 and FIN 45-4	Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161	Complete	Adopt	86, 9R	Not Explicitly Included in Codification.
FSP FAS 140-1	Accounting for Accrued Interest Receivable Related to Securitized and Sold Receivables under FASB Statement No. 140	Not Board Directed			860-20
FSP FAS 140-2	Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140	Not Board Directed			Not Explicitly Included in Codification.
FSP FAS 140-3	Accounting for Transfers of Financial Assets and Repurchase Financing Transactions	Complete	Adopt	91R, 103R	860-10
FSP FAS 140-4 and FIN 46(R)-8	Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities	Superseded by ASU 2009-17			*810-10*
FSP FAS 141-1 & 142-1	Interaction of FASB Statement No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, and EITF Issue No. 04-2, Whether Mineral Rights Are Tangible or Intangible Assets	Superseded by FAS 141R Complete	 Reject	 68	
FSP FAS 141R-1	Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies	Pending			805-10 805-20 805-30
FSP FAS 142-2	Application of FASB Statement No. 142 to Oil- and Gas-Producing Entities	Not Board Directed			932-350
FSP FAS 142-3	Determination of the Useful Life of Intangible Assets	Complete	Reject	68	275-10 350-30
FSP FAS 143-1	Accounting for Electronic Equipment Waste Obligations	Complete	N/A	App D - NA GAAP	410-20 720-40
FSP FAS 144-1	Determination of Cost Basis for Foreclosed Assets under FASB Statement No. 15 and the Measurement of Cumulative Losses Previously Recognized under Paragraph 37 of FASB Statement No. 144	Not Board Directed			310-40
FSP FAS 146-1	Determining Whether a One-Time Termination Benefit Offered in Connection with an Exit or Disposal Activity Is, in Substance, an Enhancement to an Ongoing Benefit Arrangement	Not Board Directed			420-10 715-30

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS[2]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FAS 150-1	Issuer's Accounting for Freestanding Financial Instruments Composed of More Than One Option or Forward Contract Embodying Obligations under FASB Statement No. 150	Not Board Directed			480-10
FSP FAS 150-2	Accounting for Mandatorily Redeemable Shares Requiring Redemption by Payment of an Amount that Differs from the Book Value of Those Shares under FASB Statement No. 150	Not Board Directed			480-10
FSP FAS 150-3	Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity	Complete	N/A	App D - NA GAAP	480-10
FSP FAS 150-4	Issuers' Accounting for Employee Stock Ownership Plans under FASB Statement No. 150	Not Board Directed			480-10
FSP FAS 150-5	Issuer's Accounting under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares that are Redeemable	Complete	N/A	App D - NA GAAP	480-10
FSP FAS 157-1	Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13	Complete	Adopt/M	100R	Not Directly Included in Codification. Included within FAS 157 and FAS 13
FSP FAS 157-2	Effective Date of FASB Statement No. 157	Complete	Reject	100R	Not Explicitly Included in Codification.
FSP FAS 157-3	Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active	Superseded by FSP FAS 157-4 Complete	 Reject	 100R	Not Explicitly Included in Codification.
FSP FAS 157-4	Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly	Complete	Adopt/M	100R	Not Explicitly Included in Codification.
FSP FAS 158-1	Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides	Not Board Directed Complete	 Adopt/M	 92, 102	Not Directly Included in Codification. Included within FAS 87, FAS 88 and FAS 106

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS[2]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FIN 39-1	Amendment of FASB Interpretation No. 39	Complete	Reject	64, 86	Not Directly Included in Codification. Included within FIN 39
FSP FIN 45-1	Accounting for Intellectual Property Infringement Indemnifications under FASB Interpretation No. 45	Not Board Directed			460-10
FSP FIN 45-2	Whether FASB Interpretation No. 45 Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value	Not Board Directed			460-10
FSP FIN 45-3	Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners	Complete	Adopt/M	5R	460-10 954-460
FSP FIN 46(R)-1	Reporting Variable Interests in Specified Assets of Variable Interest Entities as Separate Variable Interest Entities under Paragraph 13 of FASB Interpretation No. 46 (revised December 2003)	Not Board Directed			810-10
FSP FIN 46(R)-2	Calculation of Expected Losses under FASB Interpretation No. 46 (revised December 2003)	Not Board Directed			810-10
FSP FIN 46(R)-3	Evaluating Whether, as a Group, the Holders of the Equity Investment at Risk Lack the Direct or Indirect Ability to Make Decisions about an Entity's Activities through Voting Rights or Similar Rights under FASB Interpretation No. 46 (revised December 2003)	Not Board Directed			810-10 952-810
FSP FIN 46(R)-4	Technical Correction of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, Relating to Its Effects on Question No. 12 of EITF Issue No. 96-21, "Implementation Issues in Accounting for Leasing Transactions involving Special-Purpose Entities"	Pending			
FSP FIN 46(R)-5	Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003)	Pending			810-10
FSP FIN 46(R)-6	Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)	Not Board Directed			810-10
FSP FIN 46(R)-7	Application of FASB Interpretation No. 46(R) to Investment Companies	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within FIN 46R
FSP FIN 48-1	Definition of Settlement in FASB Interpretation No. 48	Pending			740-10

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS[2]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FIN 48-2	Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises	Complete	Reject	101	Not Explicitly Included in Codification. See FIN 48
FSP FIN 48-3	Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises	Complete	Reject	10[illegible]	[illegible]ot Explicitly Included in Codification.
FSP APB 14-1	Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)	Pending			470-20 815-15 825-10
FSP APB 18-1	Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence	Complete	Rej[illegible]t	[illegible]88, 97	323-10 323-30
FSP FTB 85-4-1	Accounting for Life Settlement Contracts by Third-Party Investors	Pe[illegible]ding			325-30
FSP EITF 85-24-1	Application of EITF Issue No. 85-24 When Cash for the Right to Future Distribution Fee[illegible] for Shares Previously Sold is Received from Third Parties	Co[illegible]plete	N/A	App D - NA GAAP	946-605
FSP EITF 99-20-1	Amendments to the Impairment Guidance of EITF Issue No. 99-20	Complete	Adopt	43R	Not Explicitly Included in Codification.
FSP EITF 00-19-1	Application of EITF Issue No. 00-19 t[illegible] Freestanding Financial Inst[illegible]ments Originally Issued as Employee Compe[illegible]sation	Superseded by FSP FAS 123(R)-1			
FSP EITF 00-19-2	Accounting for Regist[illegible]a Payment Arrangements	Complete	Adopt/M	5R	470-20 815-10 815-40 825-20
FSP EITF 03-1-1	Effective Date of Paragraphs 10–20 of EITF Issue No. [illegible]-1, The Meaning of Other-Than-Temporary Im[illegible]airment and Its Application to Certa[illegible]n Inv[illegible]stments	Superseded by FSP FAS 115-1/124-1 Complete	 Reject	 INT 06-07	
FSP EITF 03-6-1	Determining Whether Instruments Granted in Sha[illegible]-Based Payment Transactions Are Participating Securities	Complete	Reject	104R	260-10
FSP AAG INV-1 and SOP 94-4-1	Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans	Complete	N/A	App D - NA GAAP	946-205 946-210
FSP AUG AIR-1	Accounting for Planned Major Maintenance Activities	Complete	N/A	App D - NA GAAP	340-10 360-10 908-360

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS[2]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP SOP 78-9-1	Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5	Complete	N/A	App D - NA GAAP	970-810
FSP SOP 90-7-1	An Amendment of AICPA Statement of Position 90-7	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within SOP 90-1
FSP SOP 94-3-1 and AAG HCO-1	Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations	Complete	N/A	App D - NA GAAP	958-810
FSP SOP 94-6-1	Terms of Loan Products That May Give Rise to a Concentration of Credit Risk	Not Board Directed			310-10 825-10
FSP SOP 07-1-1	Effective Date of AICPA Statement of Position 07-1	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within SOP 07-1

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA INDUSTRY AUDIT & ACCOUNTING GUIDES

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
	Audits of Stock Life Insurance Companies	Complete	Reject	51R, 52	944 – Financial Services - Insurance
	Audits of Property and Liability Insurance Companies	Complete	Reject	65	944 – Financial Services - Insurance
	Audits of Health Care Organizations	Complete	Reject	73	954 – Health Care Entities

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION[3]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
14,040	Confirmation of Insurance Policies in Force	Withdrawn Complete	N/A	App D - NA GAAP	
14,060	Auditing Property and Liability Reinsurance	Withdrawn Complete	N/A	App D - NA GAAP	
14,070	Auditing Life Reinsurance	Withdrawn Complete	N/A	App D - NA GAAP	
74-6	Withdrawn 1985				
74-8	Superseded 1996	Complete	N/A	App D - NA GAAP	
74-11	Superseded 1987				
74-12	Withdrawn 1985				
75-1	Withdrawn 1981				
75-2	Accounting Practices of Real Estate Investment Trusts	Complete	N/A	App D - NA GAAP	974-10 974-605 974-835
75-3	Superseded 1986				
75-4	Superseded 1986				
75-5	Withdrawn 1985				
75-6	Withdrawn 1985				
76-1	Withdrawn 1985				
76-2	Withdrawn 1985				
76-3	Accounting Practices for Certain Employee Stock Ownership Plans	Complete	N/A	App D - NA GAAP	Grandfathered 105-10-70-2c
77-1	Superseded 1987				
77-2	Superseded 1986				
78-1	Superseded 1990				
78-2	Superseded 1993				
78-3	Withdrawn 1985				
78-4	Withdrawn 1985				
78-5	Withdrawn 1985				
78-6	Withdrawn 1985				
78-7	Superseded 1986				
78-8	Withdrawn 1981				
78-9	Accounting for Investments in Real Estate Ventures	Complete	Reject	48	320-10 323-30 970-323 970-605 970-810 970-835

[3] As of September 15, 2009, AICPA Statements of Position are no longer reviewed as part of the statutory maintenance process as they are no longer considered authoritative GAAP literature. If the AICPA were to address an issue that affects the FASB Codification, an accounting standard update (ASU) would be issued and reviewed for applicability to statutory accounting. Therefore, this table will no longer be updated after SOP 09-1.

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION[3]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
78-10	Superseded 1996	Complete	N/A	App D - NA GAAP	
79-1	Superseded 1987				
79-2	Withdrawn 1985				
79-3	Withdrawn 1985				
79-4	Withdrawn 1985				
80-1	Withdrawn 1985				
80-2	Superseded l986				
80-3	Withdrawn 1985				
81-1	Accounting for Performance of Construction-Type and Certain Production-Type Contracts	Complete	N/A	App D - NA GAAP	210-10 460-10 605-35 910-20 912-20
81-2	Superseded 1990				
82-1	Accounting and Financial Reporting for Personal Financial Statements	Complete	N/A	App D - NA GAAP	274-10
83-1	Reporting by Banks of Investment Securities Gains or Losses	Superseded Complete	N/A	App D - NA GAAP	
85-1	Superseded 1990				
85-2	Superseded 1991				
85-3	Accounting by Agricultural Producers and Agricultural Cooperatives	Complete	N/A	App D - NA GAAP	905-10 905-205 905-310 905-325 905-330 905-360 905-405 905-605
86-1	Superseded 1991				
87-1	Superseded 1990				
87-2	Accounting for Joint Costs of Informational Materials and Activities of Not-For-Profit Organizations That Include a Fund-Raising Appeal	Superseded Complete	N/A	App D - NA GAAP	
88-1	Accounting for Developmental and Preoperating Costs, Purchases and Exchanges of Takeoff and Landing Slots, and Airframe Modifications	Complete	N/A	App D - NA GAAP	908-350 908-360 908-720 908-845
88-2	Superseded 1991				
89-1	Superseded 1997				
89-2	Reports on Audited Financial Statements of Investment Companies	Withdrawn Complete	N/A	App D - NA GAAP	

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION[3]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
89-3	Questions Concerning Accountants' Services on Prospective Financial Statements	Withdrawn Complete	N/A	App D - NA GAAP	
89-4	Superseded 1997				
89-5	Superseded 1996				
89-6	Superseded 1992				
89-7	Report on the Internal Control Structure in Audits of Investment Companies	Withdrawn Complete	N/A	App D - NA GAAP	
90-1	Accountants' Services on Prospective Financial Statements for Internal Use Only and Partial Presentations	Withdrawn Complete	N/A	App D - NA GAAP	
90-2	Report on Internal Control Structure in Audits of Futures Commission Merchants	Withdrawn Complete	N/A	App D - NA GAAP	
90-3	Definition of Term Substantially the Same for Holders of Debt Instruments, as Used in Certain Audit Guides and a Statement of Position	Complete	Adopt	18, 45, 91R, 103R	860-10
90-4	Superseded 1992				
90-5	Superseded 1996				
90-6	Superseded 1996				
90-7	Financial Reporting by Entities in Reorganization Under the Bankruptcy Code	Complete	N/A	App D - NA GAAP	210-10 852-10 852-20 852-740
90-8	Financial Accounting and Reporting by Continuing Care Retirement Communities	Superseded Complete	N/A	App D - NA GAAP	
90-9	Superseded 1992				
90-10	Superseded 1995				
90-11	Disclosure of Certain Information by Financial Institutions About Debt Securities Held as Assets	Superseded Complete	Adopt	26R	
91-1	Software Revenue Recognition	Superseded Complete	N/A	App D - NA GAAP	
92-1	Accounting for Real Estate Syndication Income	Complete	Adopt	40R	970-605
92-2	Questions and Answers on the Term Reasonably Objective Basis and Other Issues Affecting Prospective Financial Statements	Withdrawn Complete	N/A	App D - NA GAAP	
92-3	Accounting for Foreclosed Assets	Superseded Complete	Adopt	40R	

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION[3]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
92-4	Auditing Insurance Entities Loss Reserves	Withdrawn Complete	 Reject	 55	
92-5	Accounting for Foreign Property and Liability Reinsurance	Complete	Reject	62R	944-605
92-6	Accounting and Reporting by Health and Welfare Benefit Plans	Complete	N/A	App D - NA GAAP	962-325 965-10 965-20 965-30 965-40 965-205 965-310 965-320 965-325 965-360
92-7	Superseded 1994				
92-8	Auditing Property/Casualty Insurance Entities Statutory Financial Statements—Applying Certain Requirements of the NAIC Annual Statement Instructions	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
92-9	Audits of Not-for-Profit Organizations Receiving Federal Awards	Superseded Complete	 N/A	 App D - NA GAAP	
93-1	Financial Accounting and Reporting for High Yield Debt Securities by Investment Companies	Complete	N/A	App D - NA GAAP	450-20 946-320
93-2	Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies	Superseded Complete	 N/A	 App D - NA GAAP	
93-3	Rescission of Accounting Principles Board Statements	Complete	N/A	App D - NA GAAP	255-10
93-4	Foreign Currency Accounting and Financial Statement Presentation for Investment Companies	Complete	N/A	App D - NA GAAP	946-830
93-5	Reporting on Required Supplementary Information Accompanying Compiled or Reviewed Financial Statements of Common Interest Realty Associations	Withdrawn Complete	 N/A	 App D - NA GAAP	
93-6	Employers' Accounting for Employee Stock Ownership Plans	Complete	Adopt/M Reject paragraphs 28-34, 37, 44 & 53.b. Adopt/M paragraphs 13 & 25	12 15	460-10 718-40 718-740

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AICPA STATEMENTS OF POSITION[3]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
93-7	Reporting on Advertising Costs	Complete	Reject	29	340-20 720-35 958-720
93-8	The Auditor's Consideration of Regulatory Risk-Based Capital for Life Insurance Enterprises	Withdrawn Complete	N/A	App D - NA GAAP	
94-1	Inquiries of State Insurance Regulators	Withdrawn Complete	N/A	App D - NA GAAP	
94-2	The Application of the Requirements of Accounting Research Bulletins, Opinions of the Accounting Principles Board, and Statements and Interpretations of the Financial Accounting Standards Board to Not-for-Profit Organizations	Superseded Complete	N/A	App D - NA GAAP	
94-3	Reporting of Related Entities by Not-for-Profit Organizations	Complete	N/A	App D - NA GAAP	954-810 958-810 958-840
94-4	Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans	Complete	N/A	App D - NA GAAP	962-10 962-205 962-325 965-325
94-5	Disclosures of Certain Matters in the Financial Statements of Insurance Enterprises	Complete	Adopt	1	944-10 944-20 944-40 944-505
94-6	Disclosures of Certain Significant Risks and Uncertainties	Complete	Adopt	1	205-20 275-10 330-10 360-10 410-30 450-20 460-10 605-35 740-10 958-205 958-605 985-20
95-1	Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises	Complete	Reject	51R, 52	944-20 944-30 944-40 944-50 944-605
95-2	Financial Reporting by Nonpublic Investment Partnerships	Complete	N/A	App D - NA GAAP	946-20 946-210 946-225
95-3	Accounting for Certain Distribution Costs of Investment Companies	Complete	N/A	App D - NA GAAP	946-20

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AICPA STATEMENTS OF POSITION[3]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
95-4	Letters for State Insurance Regulators to Comply with the NAIC Model Audit Rule	Withdrawn Complete	N/A	App D - NA GAAP	
95-5	Auditor's Reporting on Statutory Financial Statements of Insurance Enterprises	Withdrawn Complete	N/A	App D - NA GAAP	
96-1	Environmental Remediation Liabilities	Complete	Adopt	67	410-30 440-10 450-20
97-1	Accounting by Participating Mortgage Loan Borrowers	Complete	Adopt	40R	310-30 470-30 835-20
97-2	Software Revenue Recognition	Complete	Adopt/M Paragraphs 6-91	16R 81	450-10 605-35 730-10 730-20 985-20 985-605
97-3	Accounting by Insurance and Other Enterprises for Insurance-Related Assessments	Complete	Reject Adopt/M	35 35R	310-10 405-30 450-20
98-1	Accounting for the Costs of Computer Software Developed or Obtained for Internal Use	Complete	Adopt/M Paragraphs 11-42 & 93	16R	350-10 350-40 350-50 730-10 985-20
98-2	Accounting for Costs of Activities of Not-for-Profit Organizations and State and Governmental Entities that Include Fund Raising	Complete	N/A	App D - NA GAAP	958-720
98-3	Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards	Superseded Complete	N/A	App D - NA GAAP	
98-4	Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition	Complete	Reject	16R	Not Directly Included in Codification. Included within SOP 97-2
98-5	Reporting on the Costs of Start-Up Activities	Complete	Adopt	76	720-15
98-6	Reporting on Management's Assessment Pursuant to the Life Insurance Ethical Market Conduct Program of the Insurance Marketplace Standards Association	Withdrawn Complete	N/A	App D - NA GAAP	

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION[3]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
98-7	Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk	Complete	Adopt paragraphs 10-12 & 19b. Reject 13-17, 19a & 19c.	62R	340-30 450-10 835-10
98-8	Engagements to Perform Year 2000 Agreed-Upon Procedures Attestation Engagements Pursuant to Rule 17a-5 of the Securities Exchange Act of 1934, Rule 17Ad-18 of the Securities Exchange Act of 1934, and Advisories No. 17-98 and No. 42-98 of the Commodity Futures Trading Commission	Withdrawn Complete	N/A	App D - NA GAAP	
98-9	Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions	Complete	Adopt/M paragraphs 6-8	16R	Not Directly Included in Codification. Included within SOP 97-2
99-1	Guidance to Practitioners in Conducting and Reporting on an Agreed-Upon Procedures Engagement to Assist Management in Evaluating the Effectiveness of its Corporate Compliance Program	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
99-2	Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans	Complete	N/A	App D - NA GAAP	960-20 960-30 960-205 965-10 965-205
99-3	Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters	Complete	N/A	App D - NA GAAP	962-10 962-325 965-325
00-1	Auditing Health Care Third-Party Revenues and Related Receivables	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION[3]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
00-2	Accounting by Producers or Distributors of Films	Complete	N/A	App D - NA GAAP	210-10 430-10 460-10 855-10 926-10 926-20 926-230 926-330 926-405 926-430 926-605 926-705 926-720 926-835 926-845 926-855
00-3	Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts	Pending			944-805
01-1	Amendment to Scope of Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships, to Include Commodity Pools	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within SOP 95-2
01-2	Accounting and Reporting by Health and Welfare Benefit Plans	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within EBP AAG and SOP 92-6
01-3	Performing Agreed-Upon Procedures Engagements That Address Internal Control Over Derivative Transactions as Required by the New York State Insurance Law	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
01-4	Reporting Pursuant to the Association for Investment Management and Research Performance Presentation Standards	Withdrawn Complete	N/A	App D - NA GAAP	
01-5	Amendments to Specific AICPA Pronouncements for Changes Related to the NAIC Codification	Complete	Adopt	1	Not Directly Included in Codification. Included within SOP 94-5

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION[3]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
01-6	Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others	Complete	N/A Adopt/M guidance on short sales	App D - NA GAAP 103R	310-10 310-20 460-10 605-20 825-10 835-30 860-20 860-50 942-10 942-210 942-305 942-310 942-320 942-325 942-360 942-405 942-470 942-505 942-825 944-320 948-10
02-1	Performing Agreed-Upon Procedures Engagements That Address Annual Claims Payment Reports as Required by the New Jersey Administrative Code	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
02-2	Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator	Complete	N/A	App D - NA GAAP	954-815
03-1	Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts	Complete	Rejected	56	944-20 944-30 944-40 944-80 944-320 944-605
03-2	Attest Engagements on Greenhouse Gas Emissions Information	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
03-3	Accounting for Certain Loans or Debt Securities Acquired in a Transfer	Considered for 43R only Pending	Paragraphs 5, 7 and 9 adopted for 43R only.	43R	310-10 310-30 835-10
03-4	Reporting Financial Highlights and Schedule of Investments by Nonregistered Investment Partnerships: An Amendment to the Audit and Accounting Guide Audits of Investment Companies and AICPA Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within SOP 95-2

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PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION[3]

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
03-5	Financial Highlights of Separate Accounts: An Amendment to the Audit and Accounting Guide Audits of Investment Companies	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within INV AAG
04-1	Auditing the Statement of Social Insurance	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
04-2	Accounting for Real Estate Time-Sharing Transactions	Complete	N/A	App D - NA GAAP	978-10 978-230 978-250 978-310 978-330 978-340 978-605 978-720 978-810 978-840
05-1	Statement of Position 05-1 Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts	Complete	Rejected	71	944-30
06-1	Statement of Position 06-1 Reporting Pursuant to the Global Investment Performance Standards	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
07-1	Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies	Complete	N/A	App D - NA GAAP	946-10 946-323 946-810
07-2	Attestation Engagements That Address Specified Compliance or Control Objectives and Related Controls at Entities That Provide Services to Investment Companies, Investment Advisers, or Other Service Providers	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
09-1	Performing Agreed-Upon Procedures Engagements That Address the Completeness, Accuracy, or Consistency of XBRL-Tagged Data	Complete	Reject	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
84-1	1984 Tax Reform Act: Deferred Income Taxes of Stock Life Insurance Companies	Resolved by FAS 109			
84-2	Tax Reform Act of 1984: Deferred Income Taxes Relating to Domestic International Sales Corporations	Resolved by FAS 109			
84-3	Convertible Debt "Sweeteners"	Nullified by FAS 84			
84-4	Acquisition, Development and Construction Loans	Resolved by PB 1			810-10 815-15
84-5	Sale of Marketable Securities with a Put Option	Complete	Rejected	88, 91R, 103R	460-10 860-20
84-6	Termination of Defined Benefit Pension Plans	Nullified by FAS 88			
84-7	Termination of Interest Rate Swaps	Partially nullified and Partially resolved by FAS 133 Complete	Adopt	31	
84-8	Variable Stock Purchase Warrants Given by Suppliers to Customers	Resolved by FAS 123(R) Complete	N/A	104R	
84-9	Deposit Float of Banks	Superseded by PB 1 and AAG BSI Complete	N/A	App D - NA GAAP	
84-10	LIFO Conformity of Companies Relying on Insilco Tax Court Decision	No EITF Consensus			
84-11	Offsetting Installment Note Receivables and Bank Debt ("Note Monetization")	Resolved by FIN 39			
84-12	Operating Leases with Scheduled Rent Increases	Nullified by FTB 85-3			

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
84-13	Purchase of Stock Options and Stock Appreciation Rights in a Leveraged Buyout	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	13 104R	
84-14	Deferred Interest Rate Setting	Nullified by FAS 133 Complete	Reject	31	
84-15	Grantor Trusts Consolidation	No EITF Consensus			
84-16	Earnings-per-Share Cash-Yield Test for Zero Coupon Bonds	Resolved by FAS 85			
84-17	Profit Recognition on Sales of Real Estate with Graduated Payment Mortgages or Insured Mortgages	Complete	Adopt	40R	360-20
84-18	Stock Option Pyramiding	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	13 104R	
84-19	Mortgage Loan Payment Modifications	Complete	Adopt	37	310-20
84-20	GNMA Dollar Rolls	Complete	Adopt	45	815-10 860-10
84-21	Sale of a Loan with a Partial Participation Retained	Resolved by FAS 125 & FAS 140			
84-22	Prior Years' Earnings per Share following a Savings and Loan Association Conversion and Pooling	Resolved by FAS 141			
84-23	Leveraged Buyout Holding Company Debt	No EITF Consensus			

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
84-24	LIFO Accounting Issues	No EITF Consensus			
84-25	Offsetting Nonrecourse Debt with Sales-Type of Direct Financing Lease Receivables	Resolved by FTB 86-2			
84-26	Defeasance of Special-Purpose Borrowings	Resolved by FAS 125 & FAS 140			
84-27	Deferred Taxes on Subsidiary Stock Sales	Resolved by FAS 109			
84-28	Impairment of Long-Lived Assets	Resolved by FAS 121 and FAS 144			
84-29	Gain and Loss Recognition on Exchanges of Productive Assets and the Effect of Boot	Resolved by EITF 86-29			
84-30	Sales of Loans to Special-Purpose Entities	Resolved by FIN 46 & FIN 46 (R)			
84-31	Equity Certificates of Deposit	Resolved by FAS 133			
84-32	(Not Used)				
84-33	Acquisition of a Tax Loss Carryforward—Temporary Parent-Subsidiary Relationship	Resolved by FAS 144			
84-34	Permanent Discount Restricted Stock Purchase Plans	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	N/A	104R	
84-35	Business Combinations: Sale of Duplicate Facilities and Accrual of Liabilities	No EITF Consensus			
84-36	Interest Rate Swap Transactions	Nullified by FAS 133 Complete	Adopt	31	
84-37	Sale-Leaseback Transaction with Repurchase Option	No EITF Consensus			840-40

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
84-38	Identical Common Shares for a Pooling of Interests	Nullified by FTB 85-5			
84-39	Transfers of Monetary and Nonmonetary Assets among Individuals and Entities under Common Control	No longer technically helpful			
84-40	Long-Term Debt Repayable by a Capital Stock Transaction	Nullified by FIN 46, FIN 46 (R) & FAS 150 Complete	Reject	15	
84-41	Consolidation of Subsidiary after Instantaneous In-Substance Defeasance	Resolved by FAS 94			
84-42	Push-Down of Parent Company Debt to a Subsidiary	No EITF Consensus			
84-43	Income Taxes Effects of Asset Revaluations in Certain Foreign Countries	Nullified by FAS 1			
84-44	Partial Termination of a Defined Benefit Pension Plan	Resolved by FAS 88			
85-1	Classifying Notes Received for Capital Stock	Complete	Reject	72	310-10 505-10 850-10
85-2	Classification of Costs Incurred in a Takeover Defense	Nullified by TB 85-6 Complete	Reject	72	
85-3	Tax Benefits Relating to Asset Dispositions Following an Acquisition of a Financial Institution	Nullified by FAS 109			
85-4	Downstream Mergers and Other Stock Transactions between Companies under Common Control	Resolved by FTB 85-5			
85-5	Restoration of Deferred Taxes Previously Eliminated by Net Operating Loss Recognition	Resolved by FAS 109			
85-6	Futures Implementation Questions	Resolved by Q&A 80			
85-7	Federal Home Loan Mortgage Corporation Stock	Resolved by FTB 85-1			
85-8	Amortization of Thrift Intangibles	Nullified by FAS 141(R) Complete	N/A	App D - NA GAAP	
85-9	Revenue Recognition on Options to Purchase Stock of Another Entity	Complete	Adopt	15	470-20

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
85-10	Employee Stock Ownership Plan Contribution Funded by a Pension Plan Termination	Nullified by FAS 88			
85-11	Use of an Employee Stock Ownership Plan in a Leveraged Buyout	No longer technically helpful			
85-12	Retention of Specialized Accounting for Investments in Consolidation	Complete	N/A	App D - NA GAAP	810-10
85-13	Sale of Mortgage Service Rights on Mortgages Owned by Others	Complete	N/A	App D - NA GAAP	860-50
85-14	Securities That Can Be Acquired for Cash in a Pooling of Interests	Nullified by FAS 141 Complete	 Reject	 68	
85-15	Recognizing Benefits of Purchased Net Operating Loss Carryforwards	Nullified by FAS 109			
85-16	Leveraged Leases • Real Estate Leases and Sale-Leaseback Transactions • Delayed Equity Contributions by Lessors	Complete	Adopt	22	840-30
85-17	Accrued Interest upon Conversion of Convertible Debt	Complete	Adopt	15	470-20 835-10
85-18	Earnings-per-Share Effect of Equity Commitment Notes	Partially Nullified by FAS 128 Complete	 N/A	 App D - NA GAAP	Not Directly Included in Codification. Included within FAS 128
85-19	(Not Used)				
85-20	Recognition of Fees for Guaranteeing a Loan	Complete Partially nullified by FAS 163	Adopt	27	310-10 460-10 605-20
85-21	Change of Ownership Resulting in a New Basis of Accounting	No EITF Consensus			805-50
85-22	Retroactive Application of FASB Technical Bulletins	No longer technically helpful			
85-23	Effect of a Redemption Agreement on Carrying Value of a Security	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to FAS 133

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
85-24	Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge	Complete	N/A	App D - NA GAAP	946-605 946-720
85-25	Sale of Preferred Stocks with a Put Option	Nullified by FAS 125, 133 & 140			860-20
85-26	Measurement of Servicing Fee Under FASB Statement No. 65 When a Loan is Sold with Servicing Retained	Resolved by FTB 87-3 & FAS 125 & FAS 140			
85-27	Recognition of Receipts from Made-Up Rental Shortfalls	Complete	N/A	App D - NA GAAP	970-360
85-28	Consolidation Issues Relating to Collateralized Mortgage Obligations	Resolved by FAS 94			
85-29	Convertible Bonds with a "Premium Put"	Complete Partially Nullified by FAS 133	Adopt	15	Not Directly Included in Codification. Issue Subject to FAS 133, FAS 155 and FIN 45
85-30	Sale of Marketable Securities at a Gain with a Put Option	Resolved by FAS 125 & FAS 140			
85-31	Comptroller of the Currency's Rule on Deferred Tax Debits	Complete	N/A	App D - NA GAAP	942-740
85-32	Purchased Lease Residual	Nullified by FTB 86-2			
85-33	Disallowance of Income Tax Deduction for Core Deposit Intangibles	Nullified by FAS 109			
85-34	Banker's Acceptances and Risk Participations	Resolved by FAS 125 and FAS 140			
85-35	Transition and Implementation Issues for FASB Statement No. 86	No longer technically helpful			
85-36	Discontinued Operations with Expected Gain and Interim Operating Losses	Nullified by FAS 144 Complete	Reject	24	
85-37	Recognition of Note Received for Real Estate Syndication Activities	Resolved by SOP 92-1			

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
85-38	Negative Amortizing Loans	No longer technically helpful			
85-39	Implications of SEC Staff Accounting Bulletin No. 59 on Noncurrent Marketable Equity Securities	No EITF Consensus			
85-40	Comprehensive Review of Sales of Marketable Securities with Put Arrangements	Nullified by FAS 125 and partially nullified by FAS 140			
85-41	Accounting for Savings and Loan Associations under FSLIC Management Consignment Program	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to FAS 109, FAS 142 and FAS 141R
85-42	Amortization of Goodwill Resulting from Recording Time Savings Deposits at Fair Values	Nullified by FAS 141 (R) Complete	N/A	App D - NA GAAP	
85-43	Sale of Subsidiary for Equity Interest in Another	Resolved by EITF 86-29			
85-44	Differences between Loan Loss Allowances for GAAP and RAP	Complete	N/A	App D - NA GAAP	Not Included in Codification As No Longer Applicable Or Relevant
85-45	Business Combinations: Settlement of Stock Options and Awards	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	13 104R	
85-46	Partnership's Purchase of Withdrawing Partner's Equity	No EITF Consensus			

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
86-1	Recognizing Net Operating Loss Carryforwards	Nullified by FAS 109			
86-2	Retroactive Wage Adjustments Affecting Medicare Payments	No longer technically helpful Complete	N/A	App D - NA GAAP	
86-3	Retroactive Regulations regarding IRC Section 338 Purchase Price Allocations	No longer technically helpful Complete	N/A	App D - NA GAAP	
86-4	Income Statement Treatment of Income Tax Benefit for Employee Stock Ownership Plan Dividends	Nullified by FAS 109			
86-5	Classifying Demand Notes with Repayment Terms	Complete	N/A	App D - NA GAAP	470-10
86-6	Antispeculation Clauses in Real Estate Sales Contracts	Complete	Adopt	40R	360-20
86-7	Recognition by Homebuilders of Profits from Sales of Land and Related Construction Contracts	Complete	N/A	App D - NA GAAP	970-360
86-8	Sale of Bad-Debt Recovery Rights	Complete	Adopt	15	860-10
86-9	IRC Section 338 and Push-Down Accounting	Complete	Reject	68	805-50 805-740
86-10	Pooling with 10 Percent Cash Payout Determined by Lottery	Nullified by FAS 141 Complete	Reject	68	
86-11	Recognition of Possible 1986 Tax Law Changes	Resolved by FAS 109			
86-12	Accounting by Insureds for Claims-Made Insurance Policies	Codified in Issue 03-8 Complete	N/A	App D - NA GAAP	
86-13	Recognition of Inventory Market Declines at Interim Reporting Dates	Complete	N/A	App D - NA GAAP	330-10
86-14	Purchased Research and Development Projects in a Business Combination	No EITF Consensus			

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
86-15	Increasing-Rate Debt	Complete	Adopt	15	470-10 835-10
86-16	Carryover of Predecessor Cost in Leveraged Buyout Transactions	Superseded by EITF 88-16			
86-17	Deferred Profit on Sale-Leaseback Transaction with Lessee Guarantee of Residual Value	Complete	Reject	22	460-10 840-40
86-18	Debtor's Accounting for a Modification of Debt Terms	Resolved by FIN 39 and Superseded by Issue 96-19 Complete	 Adopt	 15	
86-19	Change in Accounting for Other Postemployment Benefits	Resolved by FAS 1			
86-20	Accounting for Other Postemployment Benefits of an Acquired Company	Nullified by FAS 106			
86-21	Application of the AICPA Notice to Practitioners regarding Acquisition, Development, and Construction Arrangements to Acquisition of an Operating Property	Complete	Adopt	38	310-10 815-15
86-22	Display of Business Restructuring Provisions in the Income Statement	No EITF Consensus			
86-23	(Not Used)				
86-24	Third-Party Establishment of Collateralized Mortgage Obligations	Nullified by FAS 125 and FAS 140 Complete	 N/A	 App D - NA GAAP	
86-25	Offsetting Foreign Currency Swaps	Complete	Adopt	64	815-10
86-26	Using Forward Commitments as a Surrogate for Deferred Rate Setting	Resolved by FAS 133			
86-27	Measurement of Excess Contributions to a Defined Contribution Plan or Employee Stock Ownership Plan	Complete	N/A	App D - NA GAAP	715-70
86-28	Accounting Implications of Indexed Debt Instruments	Nullified by FAS 133 Complete	 Adopt	 15	 470-10

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
86-29	Nonmonetary Transactions: Magnitude of Boot and the Exceptions to the Use of Fair Value	Codified in EITF 01-2 Complete	Adopt	28, 95	
86-30	Classification of Obligations When a Violation is Waived by the Creditor	Complete	N/A	App D - NA GAAP	470-10
86-31	Reporting the Tax Implications of a Pooling of a Bank and a Savings and Loan Association	Nullified by FAS 141 Complete	N/A	App D - NA GAAP	
86-32	Early Extinguishment of a Subsidiary's Mandatorily Redeemable Preferred Stock	Complete	Reject	32	505-10 810-10
86-33	Tax Indemnifications in Lease Agreements	Complete	Adopt	22	460-10 840-10
86-34	Futures Contracts Used as Hedges of Anticipated Reverse Repurchase Transactions	Nullified by FAS 133 Complete	Reject	31	
86-35	Debentures with Detachable Stock Purchase Warrants	Superseded by EITF No. 96-13			
86-36	Invasion of a Defeasance Trust	Complete	Adopt	15	Not Included in Codification As No Longer Applicable Or Relevant
86-37	Recognition of Tax Benefit of Discounting Loss Reserves of Insurance Companies	Nullified by FAS 109			
86-38	Implications of Mortgage Prepayments on Amortization of Servicing Rights	Section A – Nullified by FAS 122 & FAS 125 Section B – Nullified by FAS 125 Section C – Superseded by EITF No. 89-4			

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
86-39	Gains from the Sale of Mortgage Loans with Servicing Rights Retained	Nullified by FAS 122, FAS 125 & FAS 140			
86-40	Investments in Open-End Mutual Funds That Invest in U.S. Government Securities	Complete	N/A	App D - NA GAAP	320-10
86-41	Carryforward of the Corporate Alternative Minimum Tax Credit	Nullified by FAS 109			
86-42	Effect of a Change in Tax Rates on Assets and Liabilities Recorded Net-of-Tax in a Purchase Business Combination	Nullified by FAS 109			
86-43	Effect of a Change in Tax Law or Rates on Leveraged Leases	Complete	Adopt	22	840-30
86-44	Effect of a Change in Tax Law on Investments in Safe Harbor Leases	Complete	N/A	App D - NA GAAP	Not Included in Codification As No Longer Applicable Or Relevant
86-45	Imputation of Dividends on Preferred Stock Redeemable at the Issuer's Option with Initial Below-Market Dividend Rate	No EITF Consensus			
86-46	Uniform Capitalization Rules for Inventory under the Tax Reform Act of 1986	Complete	N/A	App D - NA GAAP	330-10
87-1	Deferral Accounting for Cash Securities That Are Used to Hedge Rate or Price Risk	Resolved by FAS 133			
87-2	Net Present Value Method of Valuing Speculative Foreign Exchange Contracts	Nullified by FAS 133 Complete	Reject	31	
87-3	(Not Used)				
87-4	Restructuring of Operations: Implications of SEC Staff Accounting Bulletin No. 67	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to FAS 144 and EITF 94-3
87-5	Troubled Debt Restructurings: Interrelationship between FASB Statement No. 15 and the AICPA Savings and Loan Guide	Nullified by FAS 114			
87-6	Adjustments Relating to Stock Compensation Plans	Nullified by FIN 44 Complete	Adopt Nullified	13 104R	

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
87-7	Sale of an Asset Subject to a Lease and Nonrecourse Financing: "Wrap-Lease Transactions"	Complete	Reject	22	Not Directly included in Codification Issue Subject to EITF 88-1 and FAS 13
87-8	Tax Reform Act of 1986: Issues Related to the Alternative Minimum Tax	Issues 1 – 9 and 11 nullified by FAS 96 & 109 Issue 10	 Adopt	 22	740-10 840-30
87-9	Profit Recognition on Sales of Real Estate with Insured Mortgages or Surety Bonds	Complete	Adopt	40R	360-20
87-10	Revenue Recognition by Television (Barter) Syndicators	Guidance revised by FAS 139 Complete	 N/A	 App D - NA GAAP	Not Directly Included in Codification. Issue Subject to SOP 00-2
87-11	Allocation of Purchase Price to Assets to Be Sold	Nullified by FAS 144 Complete	 Reject	 68	
87-12	Foreign Debt-for-Equity Swaps	Complete	Reject	23	830-20
87-13	Amortization of Prior Service Cost for a Defined Benefit Plan When There Is a History of Plan Amendments	Resolved by Q&A 87, Question 20			
87-14	(Not Used)				
87-15	Effect of a Standstill Agreement on Pooling-of-Interests Accounting	Nullified by FAS 141 Complete	 Reject	 68	
87-16	Whether the 90 Percent Test for a Pooling of Interests Is Applied Separately to Each Company or on a Combined Basis	Nullified by FAS 141 Complete	 Reject	 68	
87-17	Spinoffs or Other Distributions of Loans Receivable to Shareholders	Codified in EITF 01-2			

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
87-18	Use of Zero Coupon Bonds in a Troubled Debt Restructuring	Complete Partially resolved by FAS 125 & FAS 140	Adopt/M	36	310-40
87-19	Substituted Debtors in a Troubled Debt Restructuring	Complete	Adopt/M	36	310-40
87-20	Offsetting Certificates of Deposit against High-Coupon Debt	Partially resolved by FAS 125 and Superseded by EITF 96-19 Complete	N/A	App D - NA GAAP	
87-21	Change of Accounting Basis in Master Limited Partnership Transactions	Complete	Reject	46, 88, 97	805-50
87-22	Prepayments to the Secondary Reserve of the FSLIC	Issue addressed in PB 3 and PB 3 was Withdrawn Complete	N/A	App D - NA GAAP	
87-23	Book Value Stock Purchase Plans	Issues 1 and 2 nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) and Issue 3 nullified by SOP 93-6 Complete	Adopt Nullified	13 104R	
87-24	Allocation of Interest to Discontinued Operations	Complete	N/A	App D - NA GAAP	205-20

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
87-25	Sale of Convertible, Adjustable-Rate Mortgages with Contingent Repayment Agreement	Resolved by FAS 125 & FAS 140			
87-26	Hedging of Foreign Currency Exposure with a Tandem Currency	Nullified by FAS 133 Complete	 Reject		
87-27	Poolings of Companies That Do Not Have a Controlling Class of Common Stock	Nullified by FAS 141 Complete	 Reje	 68	
87-28	Provision for Deferred Taxes on Increases in Cash Surrender Value of Key-Person Life Insurance	Resolved by FAS 10			
87-29	Exchange of Real Estate Involving Boot	Codified in EITF 01-2 Complete	 Adopt	 40R	
87-30	Sale of a Short-Term Loan Made under a Long-Term Credit Commitment	Complete	N/A	App D - NA GAAP	860-10
87-31	Sale of Put Options on Issuer's Stock	Codified in EITF No. 96-13			
87-32	(Not Used)				
87-33	Stock Compensation Issues Related to Market Decline	Nullified by FIN 44 Complete	 Adopt Nullified	 13 104R	
87-34	Sale of Mortgage Servicing Rights with a Subservicing Agreement	Complete	Adopt	18, 91R, 103R	860-50
88-1	Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan	Complete	Adopt	8, 89, 92, 102	715-20 715-30
88-2	(Not Used)				
88-3	Rental Concessions Provided by Landlord	Resolved by FTB 88-1 and EITF 88-10 and 94-3			
88-4	Classification of Payment Made to IRS to Retain Fiscal Year	Complete	N/A	App D - NA GAAP	740-10
88-5	Recognition of Insurance Death Benefits	Complete	Adopt	21	325-30

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
88-6	Book Value Stock Plans in an Initial Public Offering	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	13 104R	
88-7	(Not Used)				
88-8	Mortgage Swaps	Partially nullified and partially resolved by FAS 133 Complete	Reject	31	
88-9	Put Warrants	Nullified by FAS 128, 133, and 150 or superseded by Issue No. 96-13 Complete	Adopt/M	72	
88-10	Costs Associated with Lease Modification or Termination	Nullified and resolved by FAS 146 Complete	Adopt (See FAS 146)	22	
88-11	Allocation of Recorded Investment When a Portion of a Loan Is Sold	Nullified by Statement 125 and Statement 140, as amended by Statement 156 Complete	Adopt	18, 91R, 103R	

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
88-12	Transfer of Ownership Interest as Part of Down Payment under FASB Statement No. 66	Complete	Adopt	40R	360-20
88-13	(Not Used)				
88-14	Settlement of Fees with Extra Units to a General Partner in a Master Limited Partnership	No EITF Consensus			810-10
88-15	Classification of Subsidiary's Loan Payable in Consolidated Balance Sheet When Subsidiary's and Parent's Fiscal Years Differ	No EITF Consensus			470-10 810-10
88-16	Basis in Leveraged Buyout Transactions	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
88-17	Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations	Partially nullified by FAS 155 & superseded by EITF 07-5 Complete	Reject	37	
88-18	Sales of Future Revenues	Complete	Adopt	18, 91R, 103R	470-10
88-19	FSLIC-Assisted Acquisitions of Thrifts	Complete	N/A	App D - NA GAAP	942-10
88-20	Difference between Initial Investment and Principal Amount of Loans in a Purchased Credit Card Portfolio	Complete	N/A	App D - NA GAAP	310-10
88-21	Accounting for the Sale of Property Subject to the Seller's Preexisting Lease	Complete	Reject	22	840-40
88-22	Securitization of Credit Card and Other Receivable Portfolios	Complete	Adopt	18, 91R, 103R	860-10 860-20
88-23	Lump-Sum Payments under Union Contracts	Complete	Reject	29	710-10
88-24	Effect of Various Forms of Financing under FASB Statement No. 66	Complete	Adopt	40R	360-20
88-25	Ongoing Accounting and Reporting for a Newly Created Liquidating Bank	Complete	N/A	App D - NA GAAP	852-10 942-810
88-26	Controlling Preferred Stock in a Pooling of Interests	Nullified by FAS 141 Complete	Reject	68	
88-27	Effect of Unallocated Shares in an Employee Stock Ownership Plan on Accounting for Business Combinations	Nullified by FAS 141 Complete	Reject	68	

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
89-1	Accounting by a Pension Plan for Bank Investment Contracts and Guaranteed Investment Contracts	Resolved by FAS 110 and SOP 94-4			
89-2	Maximum Maturity Guarantees on Transfers of Receivables with Recourse	Nullified by FAS 125 & partially nullified by FAS 140			
89-3	Balance Sheet Presentation of Savings Accounts in Financial Statements of Credit Unions	Complete	N/A	App D - NA GAAP	942-405
89-4	Accounting for a Purchased Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate	Superseded by EITF 99-20 Complete	Reject	43R	
89-5	Sale of Mortgage Loan Servicing Rights	Superseded by EITF 95-5			
89-6	(Not Used)				
89-7	Exchange of Assets or Interest in a Subsidiary for a Noncontrolling Equity Interest in a New Entity	Nullified in EITF 01-2 Complete	Reject	68	
89-8	Expense Recognition for Employee Stock Ownership Plans	Nullified by SOP 93-6			
89-9	Accounting for In-Substance Foreclosures	Nullified by FAS 114			
89-10	Sponsor's Recognition of Employee Stock Ownership Plan Debt	Superseded by SOP 93-6			
89-11	Sponsor's Balance Sheet Classification of Capital Stock with a Put Option Held by an Employee Stock Ownership Plan	Complete	Reject	12	480-10
89-12	Earnings-per-Share Issues Related to Convertible Preferred Stock Held by an Employee Stock Ownership Plan	Superseded by SOP 93-6			
89-13	Accounting for the Cost of Asbestos Removal	Complete	Adopt	40R	410-20 410-30
89-14	Valuation of Repossessed Real Estate	Complete	Adopt	40R	310-40
89-15	Accounting for a Modification of Debt Terms When the Debtor is Experiencing Financial Difficulties	Superseded by EITF 02-4 Complete	Adopt/M	36	
89-16	Consideration of Executory Costs in Sale-Leaseback Transactions	Complete	Adopt	22	840-40

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
89-17	Accounting for the Retail Sale of an Extended Warranty Contract in Connection with the Sale of a Product	Nullified by FTB 90-1			
89-18	Divestitures of Certain Investment Securities to an Unregulated Commonly Controlled Entity under FIRREA	Nullified by FAS 115 Complete	Reject	26R	
89-19	Accounting for a Change in Goodwill Amortization for Business Combinations Initiated Prior to the Effective Date of FASB Statement No. 72	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
89-20	Accounting for Cross Border Tax Benefit Leases	Complete	N/A	App D - NA GAAP	840-40
90-1	(Not Used)				
90-2	Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security	Nullified by FAS 125 and FAS 140 Complete	Reject	43R	
90-3	Accounting for Employers' Obligations for Future Contributions to a Multiemployer Pension Plan	Complete	Adopt	8, 89, 92, 102	715-80
90-4	Earnings-per-Share Treatment of Tax Benefits for Dividends on Stock Held by an Employee Stock Ownership Plan	Complete	N/A	App D - NA GAAP	718-40
90-5	Exchanges of Ownership Interests between Entities under Common Control	Nullified by FAS 141R and FAS 160 Complete	Reject	68	
90-6	Accounting for Certain Events Not Addressed in Issue No. 87-11 Relating to an Acquired Operating Unit to Be Sold	Nullified by FAS 144 Complete	Reject	68	

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GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
90-7	Accounting for a Reload Stock Option	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	13 104R	
90-8	Capitalization of Costs to Treat Environmental Contamination	Complete	Adopt	40R	410-20 410-30
90-9	Changes to Fixed Employee Stock Option Plans as a Result of Equity Restructuring	Nullified by FIN 44 Complete	Adopt Nullified	13 104R	
90-10	Accounting for a Business Combination Involving a Majority-Owned Investee of a Venture Capital Company	Resolved by FAS 141			
90-11	Accounting for Exit and Entrance Fees Incurred in a Conversion from the Savings Association Insurance Fund to the Bank Insurance Fund	No longer technically helpful			
90-12	Allocating Basis to Individual Assets and Liabilities for Transactions within the Scope of Issue No. 88-16	Nullified by FAS 141R Complete	Reject	68	
90-13	Accounting for Simultaneous Common Control Mergers	Nullified by FAS 141R and FAS 160 Complete	Reject	68	
90-14	Unsecured Guarantee by Parent of Subsidiary's Lease Payments in a Sale-Leaseback Transaction	Complete	Adopt	22	460-10 840-40
90-15	Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions	Nullified by FIN 46 & FIN 46 (R) Complete	Reject	22	958-810 958-840

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
90-16	Accounting for Discontinued Operations Subsequently Retained	Nullified by FAS 144 Complete	N/A	App D - NA GAAP	
90-17	Hedging Foreign Currency Risks with Purchased Options	Affirmed by FAS 133; therefore no longer necessary Complete	Reject	31	
90-18	Effect of a "Removal of Accounts" Provision on the Accounting for a Credit Card Securitization	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to FAS 140 and FAS 156
90-19	Convertible Bonds with Issuer Option to Settle for Cash upon Conversion	Nullified by FSP APB 14-1 Complete	Adopt/M	15	Not Explicitly Included in Codification.
90-20	Impact of an Uncollateralized Irrevocable Letter of Credit on a Real Estate Sale-Leaseback Transaction	Complete	Adopt	22	460-10 840-40
90-21	Balance Sheet Treatment of a Sale of Mortgage Servicing Rights with a Subservicing Agreement	Complete	Adopt	18, 91R, 103R	460-10 860-10 860-50
90-22	Accounting for Gas Balancing Arrangements	No EITF Consensus			932-10 932-815
91-1	Hedging Intercompany Foreign Currency Risks	Nullified by FAS 133 Complete	Reject	31	
91-2	Debtor's Accounting for Forfeiture of Real Estate Subject to a Nonrecourse Mortgage	No EITF Consensus			
91-3	Accounting for Income Tax Benefits from Bad Debts of a Savings and Loan Association	Resolved by FAS 109			
91-4	Hedging Foreign Currency Risks with Complex Options and Similar Transactions	Resolved by FAS 133 Complete	Reject	31	
91-5	Nonmonetary Exchange of Cost-Method Investments	Complete	Reject	68	325-20

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CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
91-6	Revenue Recognition of Long-Term Power Sales Contracts	Complete	N/A	App D - NA GAAP	440-10 980-605
91-7	Accounting for Pension Benefits Paid by Employers after Insurance Companies Fail to Provide Annuity Benefits	Complete	Adopt	8, 89	715-30
91-8	Application of FASB Statement No. 96 to a State Tax Based on the Greater of a Franchise Tax or an Income Tax	Complete	Reject	0, 10 101	740-10
91-9	Revenue and Expense Recognition for Freight Services in Process	Complete	N/A	App D - NA GAAP	605-20
91-10	Accounting for Special Assessments and Tax Increment Financing Entities (TIFEs)	Complete	N/A	App D - NA GAAP	460-10 970-470
92-1	Allocation of Residual Value or First-Loss Guarantee to Minimum Lease Payments in Leases Involving Land and Building(s)	Complete	Reject	22	460-10 840-10
92-2	Measuring Loss Accruals by Transferors for Transfers of Receivables with Recourse	Complete	Reject	18, 91R, 103R	Not Directly Included in Codification. Issue Subject to FAS 133, FAS 140, FAS 156 and FIN 45.
92-3	Earnings-per-Share Treatment of Tax Benefits for Dividends on Unallocated Stock Held by an Employee Stock Ownership Plan (Consideration of the Implications of FASB Statement No. 109 on Issue 2 of EITF Issue No. 90-4)	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to SOP 93-6
92-4	Accounting for a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary	Complete	Reject	23	830-10
92-5	Amortization Period for Net Deferred Credit Card Origination Costs	Complete	N/A	App D - NA GAAP	310-20
92-6	(Not Used)				
92-7	Accounting by State-Regulated Utilities for the Effects of Certain Alternative Revenue Programs	Complete	N/A	App D - NA GAAP	980-605
92-8	Accounting for the Income Tax Effects under FASB Statement No. 109 of a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary	Complete	Adopt	10, 10R, 101	830-740
92-9	Accounting for the Present Value of Future Profits Resulting from the Acquisition of a Life Insurance Company	Complete	Reject	68	944-20
92-10	Loan Acquisitions Involving Table Funding Arrangements	Nullified by FAS 125			

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
92-11	(Not Used)				
92-12	Accounting for OPEB Costs by Rate-Regulated Enterprises	Complete	N/A	App D - NA GAAP	715-60 980-715
92-13	Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992	Complete	N/A	App D - NA GAAP	450-20 715-60 930-715
93-1	Accounting for Individual Credit Card Acquisitions	Complete	N/A	App D - NA GAAP	310-20
93-2	Effect of Acquisition of Employer Shares for/by an Employee Benefit Trust on Accounting for Business Combinations	Resolved by FAS 141			
93-3	Plan Assets under FASB Statement No. 106	Complete	Adopt	14	710-10 715-60
93-4	Accounting for Regulatory Assets	Nullified by FAS 121 & FAS 144			980-340 980-715
93-5	Accounting for Environmental Liabilities	Nullified by SOP 96-1			
93-6	Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises D-035: FASB Staff Views on Issue No. 93-6 "Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises"	Complete Complete	Adopt/M Adopt/M	12 15 62R 62R	944-20 944-20
93-7	Uncertainties Related to Income Taxes in a Purchase Business Combination	Nullified by FAS 141R Complete	 Reject	 68	
93-8	Accounting for a Sale and Leaseback of an Asset That is Leased to Another Party	Complete	Adopt	22	840-40
93-9	Application of FASB Statement No. 109 in Foreign Financial Statements Restated for General Price-Level Changes	Complete	N/A	App D - NA GAAP	830-740
93-10	Accounting for Dual Currency Bonds	Resolved by FAS 133			
93-11	Accounting for Barter Transactions Involving Barter Credits	Complete	Adopt	28, 95	845-10
93-12	Recognition and Measurement of the Tax Benefit of Excess Tax Deductible Goodwill Resulting from a Retroactive Change in Tax Law	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included in FAS 109

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
93-13	Effect of a Retroactive Change in Enacted Tax Rates That is Included in Income from Continuing Operations	Complete	Reject	10, 10R, 101	740-10
93-14	Accounting for Multiple-Year Retrospectively Rated Insurance Contracts by Insurance Enterprises and Other Enterprises	Complete	Reject	66	450-10 720-20 944-20
93-15	(Not Used)				
93-16	Application of FASB Statement No. 109 to Basis Differences within Foreign Subsidiaries That Meet the Indefinite Reversal Criterion of APB Opinion No. 23	Complete	Reject	0, 10R	740-30 830-740
93-17	Recognition of Deferred Tax Assets for a Parent Company's Excess Tax Basis in the Stock of a Subsidiary That Is Accounted for as a Discontinued Operation	Complete	Adopt	10, 10R, 101	740-30
93-18	Recognition of Impairment for an Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate	Superseded by EITF 99-20 Complete	Reject	43R	
94-1	Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects	Complete	Adopt/M	93	323-740 325-20
94-2	Treatment of Minority Interests in Certain Real Estate Investment	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification.
94-3	Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)	Nullified by FAS 146 Complete	Reject	24	
94-4	Classification of an Investment in a Mortgage-Backed Interest-Only Certificate as Held-to-Maturity	Resolved by FAS 125 & FAS 140			
94-5	Determination of What Constitutes All Risks and Rewards and No Significant Unresolved Contingencies in a Sale of Mortgage Loan Servicing Rights under Issue 89-5	Superseded by EITF 95-5			
94-6	Accounting for the Buyout of Compensatory Stock Options	Nullified by FIN 44 Complete	Adopt Nullified	13 104R	
94-7	Accounting for Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock	Codified in EITF 96-13			
94-8	Accounting for Conversion of a Loan into a Debt Security in a Debt Restructuring	Complete	Reject	36	310-40

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
94-9	Determining a Normal Servicing Fee Rate for the Sale of an SBA Loan	Nullified by FAS 125			
94-10	Accounting by a Company for the Income Tax Effects of Transactions among or with Its Shareholders under FASB Statement No. 109	Complete	Reject	10, 10R, 10[illegible]	740-10 740-20
95-1	Revenue Recognition on Sales with a Guaranteed Minimum Resale Value	Complete	N/A	App D NA GAAP	460-10 605-50 840-10 840-30
95-2	Determination of What Constitutes a Firm Commitment for Foreign Currency Transactions Not Involving a Third Party	Nullified by FAS 133 Complete	Reject	23	
95-3	Recognition of Liabilities in Connection with a Purchase Business Combination	Nullified by FAS 141R Complete	Reject	68	
95-4	Revenue Recognition on Equipment Sold and Subsequently Repurchased Subject to an Operating Lease	Complete	N/A	App D - NA GAAP	605-15 840-10
95-5	Determination of What Risks and Rewards, If Any, Can Be Retained and Whether Any Unresolved Contingencies May Exist in a Sale of Mortgage Loan Servicing Rights	Complete	Adopt	18, 91R, 103R	860-50
95-6	Accounting by a Real Estate Investment Trust for an Investment in a Service Corporation	Complete	N/A	App D - NA GAAP	974-323 974-840
95-7	Implementation Issues Related to the Treatment of Minority Interests in Certain Real Estate Investment Trusts	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification.
95-8	Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination	Nullified by FAS 141R Complete	Reject	68	
95-9	Accounting for Tax Effects of Dividends in France in Accordance with FAS Statement No. 109	Complete	Reject	10, 10R, 101	740-10
95-10	Accounting for Tax Credits Related to Dividend Payments in Accordance with FASB Statement No. 109	Complete	Reject	10, 10R, 101	740-10
95-11	Accounting for Derivative Instruments Containing Both a Written Option-Based Component and a Forward-Based Component	Resolved by FAS 133			

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
95-12	Pooling of Interests with a Common Interest in Joint Venture	Nullified by FAS 141 Complete	 Reject	 68	
95-13	Classification of Debt Issue Costs in the Statement of Cash Flows	Complete	Adopt	69	230-10
95-14	Recognition of Liabilities in Anticipation of a Business Combination	Nullified by FAS 146 Complete	 Reject	 68	
95-15	Recognition of Gain or Loss When a Binding Contract Requires a Debt Extinguishment to Occur at a Future Date for a Specified Amount	Superseded by EITF 96-19 Complete	 Adopt/M	 15	
95-16	Accounting for Stock Compensation Arrangements with Employer Loan Features under APB Opinion No. 25	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	 Adopt Nullified	 13 104R	
95-17	Accounting for Modifications to an Operating Lease That Do Not Change the Lease Classification	Complete	Adopt	22	840-20
95-18	Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements.	Nullified by FAS 144 Complete	 Reject	 24	
95-19	Determination of the Measurement Date for the Market Price of Securities Issued in a Purchase Business Combination	Codified in EITF 99-12 Complete	 Adopt	 68	
95-20	Measurement in the Consolidated Financial Statements of a Parent of the Tax Effects Related to the Operations of a Foreign Subsidiary That Receives Tax Credits Related to Dividend Payments	Complete	Reject	10, 10R, 101	740-10
95-21	Accounting for Assets to Be Disposed Of Acquired in a Purchase Business Combination	Resolved by FAS 144			

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
95-22	Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement	Complete	N/A	App D - NA GAAP	470-10
95-23	The Treatment of Certain Site Restoration/ Environmental Exit Costs When Testing a Long-Lived Asset for Impairment	Complete	Adopt	40[illegible]	360-10 360-20
96-1	Sale of Put Options on Issuer's Stock That Require or Permit Cash Settlement	Codified in EITF 96-13			
96-2	Impairment Recognition When a Nonmonetary Asset Is Exchanged or Is Distributed to Owners and Is Accounted for at the Asset's Recorded Amount	Codified in EITF 01-2			
96-3	Accounting for Equity Instruments That Are Issued for Consideration Other Than Employee Services under FASB Statement No. 123	Superseded by EITF 96-18 Complete	Reject	13	
96-4	Accounting for Reorganizations Involving a Non-Pro Rata Split-off of Certain Nonmonetary Assets to Owners	Codified in EITF 01-2 Complete	Reject	28, 95	
96-5	Recognition of Liabilities for Contractual Termination Benefits or Changing Benefit Plan Assumptions in Anticipation of a Business Combination	Complete	Adopt	8, 89, 92, 102	420-10 450-10 710-10 712-10 715-60 718-10 805-20
96-6	Accounting for the Film and Software Costs Associated with Developing Entertainment and Educational Software Products	No EITF Consensus			985-705
96-7	Accounting for Deferred Taxes on In-Process Research and Development Activities Acquired in a Purchase Business Combination	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
96-8	Accounting for a Business Combination When the Issuing Company Has Targeted Stock	Nullified by FAS 141 Complete	Reject	68	
96-9	Classification of Inventory Markdowns and Other Costs Associated with a Restructuring	Removed from EITF Agenda			330-10 420-10
96-10	Impact of Certain Transactions on the Held-to-Maturity Classification under FASB Statement No. 115	Complete	Reject	26R	320-10

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
96-11	Accounting for Forward Contracts and Purchased Options to Acquire Securities Covered by FASB Statement No. 115	Complete	Reject	31	320-10 815-10
96-12	Recognition of Interest Income and Balance Sheet Classification of Structured Notes	Complete	Reject	43R	320-10 835-10
96-13	Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock	Codified in EITF 00-19			
96-14	Accounting for the Costs Associated with Modifying Computer Software for the Year 2000	No longer technically helpful Complete	 Adopt	 17	
96-15	Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities	Complete	Reject	23	320-10 830-20
96-16	Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights	Complete	Reject	App D - NA GAAP	810-10
96-17	Revenue Recognition under Long-Term Power Sales Contracts That Contain both Fixed and Variable Pricing Terms	Complete	N/A	App D - NA GAAP	980-350 980-605
96-18	Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services	Complete	Adopted/M	104R	440-10
96-19	Debtor's Accounting for a Modification or Exchange of Debt Instruments	Complete Amended by EITF Issue No. 06-6	Adopt	18, 91R, 103R 103R	470-50
96-20	Impact of FASB Statement No. 125 on Consolidation of Special-Purpose Entities	Nullified by FAS 140 Complete	 Reject	 103R	
96-21	Implementation Issues in Accounting for Leasing Transactions involving Special-Purpose Entities	Complete	Reject	22	460-10 840-10 840-20 840-40 958-810 958-840
96-22	Applicability of the Disclosures Required by FASB Statement No. 114 When a Loan Is Restructured in a Troubled Debt Restructuring into Two (or More) Loans	Complete	Adopt	36	310-40

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
96-23	The Effects of Financial Instruments Indexed to, and Settled in, a Company's Own Stock on Pooling-of-Interests Accounting for a Subsequent Business Combination	Resolved by FAS 141			
97-1	Implementation Issues in Accounting for Lease Transactions, including Those involving Special-Purpose Entities	Complete	N/A	App D - NA GAAP	450-20 460-10 840-10 840-40 958-840
97-2	Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements	Complete	N/A	App D - NA GAAP	718-10 810-10 954-810
97-3	Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations after the Issuance of FASB Statement No. 125	Complete	Reject	App D - NA GAAP	310-20 860-10
97-4	Deregulation of the Pricing of Electricity---Issues Related to the Application of FASB Statements No. 71 and 101	Complete	N/A	App D - NA GAAP	980-20
97-5	Accounting for the Delayed Receipt of Option Shares upon Exercise under APB Opinion No. 25	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	 N/A	 104R	
97-6	Application of Issue No. 96-20 to Qualifying Special-Purpose Entities Receiving Transferred Financial Assets Prior to the Effective Date of FASB Statement No. 125	Nullified by FAS 140 Complete	 N/A	 App D - NA GAAP	
97-7	Accounting for Hedges of the Foreign Currency Risk Inherent in an Available-for-Sale Marketable Equity Security	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to FAS 130 and 133
97-8	Accounting for Contingent Consideration Issued in a Purchase Business Combination	Nullified by FAS 141R Complete	 Adopt	 68	

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CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
97-9	Effect on Pooling-of-Interests Accounting of Certain Contingently Exercisable Options or Other Equity Instruments	Nullified by FAS 141 Complete	 N/A	 App D - NA GAAP	
97-10	The Effect of Lessee Involvement in Asset Construction	Complete	Reject	App D - GAAP	460-10 840-40
97-11	Accounting for Internal Costs Relating to Real Estate Property Acquisitions	Complete	Adopt	40R	970-340 970-720
97-12	Accounting for Increased Share Authorizations in an IRS Section 423 Employee Stock Purchase Plan under APB Opinion No. 25	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	 Adopt Nullified	 INT 99-17 104R	
97-13	Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation	Complete	Adopt	17	720-45
97-14	Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested	Complete	Adopt/M	104R	260-10 710-10 810-10
97-15	Accounting for Contingency Arrangements Based on Security Prices in a Purchase Business Combination	Nullified by FAS 141R Complete	 N/A	 App D - NA GAAP	
98-1	Valuation of Debt Assumed in a Purchase Business Combination	Nullified by FAS 141R Complete	 N/A	 App D - NA GAAP	

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CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
98-2	Accounting by a Subsidiary or Joint Venture for an Investment in the Stock of Its Parent Company or Joint Venture Partner	Complete	Reject	97	Not Directly Included in Codification. Issue Subject to FIN 46R
98-3	Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business	Nullified by FAS 141R Complete	Adopt/	INT 00-26	
98-4	Accounting by a Joint Venture for Businesses Received at Its Formation	No EITF Consensus			805-10 845-10
98-5	Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios	Complete	Reject	15	470-20 505-10
98-6	Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Approval or Veto Rights	Removed from EITF Agenda			
98-7	Accounting for Exchanges of Similar Equity Method Investments	Codified in EITF 01-2 Complete	Adopt	Nullifed by SSAP No. 95	
98-8	Accounting for Transfers of Investments That Are in Substance Real Estate	Complete	Adopt	40R, 77, 103R	360-20
98-9	Accounting for Contingent Rent	Complete	Adopt/M	22	450-20 450-30 840-10
98-10	Accounting for Contracts Involved in Energy Trading and Risk Management Activities	Superseded by EITF 02-03 Complete	N/A	App D - NA GAAP	
98-11	Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations	Pending			740-10
98-12	Application of Issue No. 00-19 to Forward Equity Sales Transactions	Nullified by FAS 150 Complete – Refer to review of FAS 150			

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CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
98-13	Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee	Complete	Adopt/M	INT 00-24	320-10 323-10
98-14	Debtor's Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements	Complete	Reject	15	470-50
98-15	Structured Notes Acquired for a Specified Investment Strategy	Complete	Reject	43k	320-10
99-1	Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary	Superseded by EITF 08-08 Complete	/A	App D - NA GAAP	Not Explicitly Included in Codification.
99-2	Accounting for Weather Derivatives	Complete Superseded by ASC Topic 105 and Incorporated to ASC 815-45	Adopt/M	86	815-45
99-3	Application of Issue No. 96-13 to Derivative Instruments with Multiple Settlement Alternatives	Codified in EITF 00-19 Complete	N/A	App D - NA GAAP	
99-4	Accounting for Stock Received from the Demutualization of a Mutual Insurance Company	Complete	Adopt	72	325-30
99-5	Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements	Complete	N/A	App D - NA GAAP	340-10 460-10 730-10
99-6	Impact of Acceleration Provisions in Grants Made between Initiation and Consummation of a Pooling-of-Interests Business Combination	Nullified by FAS 141 Complete	N/A	App D - NA GAAP	
99-7	Accounting for an Accelerated Share Repurchase Program	Complete	N/A	App D - NA GAAP	260-10 505-30
99-8	Accounting for Transfers of Assets that are Derivative Instruments but that are not Financial Assets	Pending			815-10 860-10
99-9	Effect of Derivative Gains and Losses on the Capitalization of Interest	Pending			815-25 815-30

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
99-10	Percentage used to Determine the Amount of Equity Method Losses	Complete	Adopt	INT 00-24	323-10
99-11	Subsequent Events Caused by Year 2000	No longer technically helpful Complete	N/A	App D - NA GAAP	
99-12	Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination	Nullified by FAS 141R Complete	Adopt	INT 00-28	
99-13	Application of Issue No. 97-10 and FASB Interpretation No. 23 to Entities that Enter into Leases with Governmental Entities	Complete	N/A	App D - NA GAAP	840-40
99-14	Recognition by a Purchaser of Losses on Firmly Committed Executory Contracts	No EITF Consensus			
99-15	Accounting for Decreases in Deferred Tax Asset Valuation Allowances Established in a Purchase Business Combination As a Result of a Change in Tax Regulations	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
99-16	Accounting for Transactions with Elements of Research and Development Arrangements	Complete	N/A	App D - NA GAAP	810-30
99-17	Accounting for Advertising Barter Transactions	Complete	Adopt/M	95	605-20
99-18	Effect on Pooling-of-Interests Accounting of Contracts Indexed to a Company's Own Stock	Resolved by FAS 141 Complete	N/A	App D - NA GAAP	
99-19	Reporting Revenue Gross as a Principal versus Net as an Agent	Complete	N/A	App D - NA GAAP	605-45
99-20	Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to be Held by the Transferor in Securitized Financial Assets	Complete	Adopt	43R	310-20 310-30 320-10 325-40 835-10
00-1	Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures	Complete	Reject	48	323-30 810-10 910-810 930-810 932-810

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GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
00-2	Accounting for Web Site Development Costs	Complete	Adopt	16R 82	350-10 350-50
00-3	Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware	Complete	Adopt/M	16R 81	985-20 985-605
00-4	Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in That Subsidiary	Nullified by FAS 150 Complete	 N/A	 App D - NA GAAP	460-10 480-10
00-5	Determining Whether a Nonmonetary Transaction is an Exchange of Similar Productive Assets	Codified in EITF 01-2			
00-6	Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary	Superseded by EITF 07-5 Complete Partially Nullified by FAS 150	 N/A	 App D - NA GAAP	815-10
00-7	Application of Issue No. 96-13 to Equity Derivative Instruments That Contain Certain Provisions That Require Net Cash Settlement If Certain Events outside the Control of the Issuer Occur	Codified in EITF 00-19 Complete	 N/A	 App D - NA GAAP	
00-8	Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction with Providing Goods or Services	Complete	Adopt/M	104R	845-10
00-9	Classification of a Gain or Loss from a Hedge of Debt That Is Extinguished	Pending			815-30
00-10	Accounting for Shipping and Handling Fees and Costs	Complete	N/A	App D - NA GAAP	605-45
00-11	Lessor's Evaluation of Whether Leases of Certain Integral Equipment Meet the Ownership Transfer Requirements of FASB Statement No. 13	Complete	Adopt/M	22	840-10
00-12	Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee	Pending			323-10 505-10 718-10
00-13	Determining Whether Equipment Is "Integral Equipment" Subject to FASB Statements No. 66 and No. 98	Complete	Adopt	40R, 77	360-20 978-10

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CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
00-14	Accounting for Certain Sales Incentives	Codified in EITF 01-9 Complete	N/A	App D - NA GAAP	
00-15	Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option	Nullified by FAS 123R except for entities within the scope of paragraph 83 of FAS 123(R) Complete	N/A	App D - NA GAAP	
00-16	Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation	Complete	Adopt/M	104R	718-10
00-17	Measuring the Fair Value of Energy-Related Contracts in Applying Issue No. 98-1	Superseded by EITF 02-3 Complete	N/A	App D - NA GAAP	
00-18	Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees	Complete	Adopt/M	104R	505-50
00-19	Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock	Complete Partially Nullified by FAS 150	N/A	App D - NA GAAP	480-10 505-10 815-10 815-15 815-40
00-20	Accounting for Costs Incurred to Acquire or Originate Information for Database Content and Other Collections of Information	No longer technically helpful			
00-21	Revenue Arrangements with Multiple Deliverables	Complete Nullified by ASU 2009-13	Adopt/M ASU 2009-13 deemed not applicable, nullifying INT 04-18.		605-25

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CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
00-22	Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future	Codified in EITF 01-9 Complete	N/A	App D - NA GAAP	
00-23	Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	N/A	104R	
00-24	Revenue Recognition: Sales Arrangements That Include Specified-Price Trade-in Rights	No EITF Consensus			
00-25	Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products	Codified in EITF 01-9			
00-26	Recognition by a Seller of Losses on Firmly Committed Executory Contracts	No EITF Consensus			
00-27	Application of Issue No. 98-5 to Certain Convertible Instruments	Pending Partially Nullified by FAS 150			260-10 470-20 505-10
01-1	Accounting for a Convertible Instrument Granted or Issued to a Nonemployee for Goods or Services or a Combination of Goods or Services and Cash	Complete	Adopt/M	95	470-20
01-2	Interpretation of APB Opinion No. 29	Partially Nullified by FAS 153 Complete	Adopt/M	INT 06-13	810-10 845-10
01-3	Accounting in a Business Combination for Deferred Revenue of an Acquiree	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
01-4	Accounting for Sales of Fractional Interests in Equipment	No EITF Consensus			

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
01-5	Application of FASB Statement No. 52 to an Investment Being Evaluated for Impairment That Will Be Disposed Of	Complete	Reject	App D - NA GAAP	830-30
01-6	The Meaning of "Indexed to a Company's Own Stock"	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification.
01-7	Creditor's Accounting for a Modification or Exchange of Debt Instruments	Complete	Adopt	103[illegible]	310-20
01-8	Determining Whether an Arrangement Contains a Lease	Complete	Adopt M[illegible]	[illegible]	440-10 815-10 840-10 840-20 840-30
01-9	Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)	Complete	N/A	App D - NA GAAP	330-10 605-50 908-360
01-10	Accounting for the Impact of the Terrorist Attacks of September 11, 2001	Complete	Nullifed as no longer relevant, including INT 01-32.		Not included in codification. No longer applicable or relevant.
01-11	Application of Issue No. 00-19 to a Contemporaneous Forward Purchase Contract and Written Put Option	Resolved by FAS 150			
01-12	The Impact of the Requirements of FASB Statement No. 133 on Residual Value Guarantees in Connection with a Lease	Complete	N/A	App D - NA GAAP	460-10 815-10 840-10
01-13	Income Statement Display of Business Interruption Insurance Recoveries	Complete	Adopt	24	225-30 450-30
01-14	Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred	Complete	N/A	App D - NA GAAP	605-45
02-1	(Not Used)				
02-2	When Separate Contracts That Meet the Definition of Financial Instruments Should Be Combined for Accounting Purposes	No EITF Consensus Partially resolved by FAS 150			
02-3	Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities	Complete Modified by FAS 157	Reject	App D - NA GAAP	815-10 932-330 940-325
02-4	Determining Whether a Debtor's Modification or Exchange of Debt Instruments in within the Scope of FASB Statement No. 15	Complete	Adopt	36	470-60
02-5	Definition of "Common Control" in Relation to FASB Statement No. 141	No EITF Consensus			

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GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
02-6	Classification in the Statement of Cash Flows of Payments Made to Settle an Asset Retirement Obligation within the Scope of FASB Statement No. 143	Complete	N/A	App D - NA GAAP	230-10 410-20
02-7	Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets	Complete	Reject	App D - NA GAAP	350-30
02-8	Accounting for Options Granted to Employees in Unrestricted, Publicly Traded Shares of an Unrelated Entity	Complete	N/A	App D - GAAP	815-10
02-9	Accounting for Changes That Result in a Transferor Regaining Control of Financial Assets Sold	Complete	Adopt/M	INT 04-21	860-20 860-50
02-10	Determining Whether a Debtor Is Legally Released as Primary Obligor When the Debtor Becomes Secondarily Liable under the Original Obligation	No longer technically helpful			
02-11	Accounting for Reverse Spinoffs	Complete	Adopt	INT 08-05	505-60
02-12	Permitted Activities of a Qualifying Special-Purpose Entity in Issuing Beneficial Interests under FASB Statement No. 140	Nullified by FAS 166			
02-13	Deferred Income Tax Considerations in Applying the Goodwill Impairment Test in FASB Statement No. 142	Complete	Reject	App D - NA GAAP	350-20
02-14	Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means (The name of EITF 02-14 has been changed to – "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock".)	Complete	Reject	App D - NA GAAP	323-10
02-15	Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are within the Scope of FASB Statement No. 84	Complete	Adopt	15	470-20
02-16	Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor	Complete	N/A	App D - NA GAAP	605-50 705-20
02-17	Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination	Nullified by FAS 141R Complete	Reject	App D - NA GAAP	
02-18	Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition	Complete	Adopt/M	48, 97	323-10

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GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
03-1	The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments	Nullified by FSP FAS 115–1/ FAS124–1			
03-2	Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities	Complete	N/A	App D - NA GAAP	715-20 715-30
03-3	Applicability of Topic No. D–79 to Claims-Made Insurance Policies	Codified in EITF 03-8			
03-4	Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan	Complete	Adopt M	102	715-30
03-5	Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software	Complete	Adopt	16R	985-605
03-6	Participating Securities and the Two-Class Method under FASB Statement No. 128	Complete	Reject	App D - NA GAAP	260-10
03-7	Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of Issue No. 90-19)	Nullified by FSP APB 14-1 Complete	Adopt	15	Not Explicitly Included in Codification.
03-8	Accounting for Claims-Made Insurance and Retroactive Insurance Contracts by the Insured Entity	Pending			450-30 720-20 954-720
03-9	Determination of the Useful Life of Renewable Intangible Assets Under FASB Statement No. 142	Removed from EITF agenda			
03-10	Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers	Complete	N/A	App D - NA GAAP	605-50 705-20
03-11	Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not "Held for Trading Purposes" as Defined in Issue No. 02-3	Complete	Reject	App D - NA GAAP	815-10
03-12	Impact of FASB Interpretation No. 45 on Issue No. 95-	Complete	N/A	App D - NA GAAP	460-10
03-13	Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations	Complete	N/A	App D - NA GAAP	205-20
03-14	Participants' Accounting for Emissions Allowances under a "Cap and Trade" Program	Removed from EITF agenda			
03-15	Interpretation of Constraining Conditions of a Transferee in a Collateralized Bond Obligation Structure	No EITF Consensus			

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GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
03-16	Accounting for Investments in Limited Liability Companies	Complete	Reject	App D - NA GAAP	272-10 323-30
03-17	Subsequent Accounting for Executory Contracts That Have Been Recognized on an Entity's Balance Sheet	No EITF Consensus			
04-1	Accounting for Preexisting Relationships between the Parties to a Business Combination	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
04-2	Whether Mineral Rights Are Tangible or Intangible Assets	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
04-3	Mining Assets: Impairment and Business Combinations	Complete	N/A	App D - NA GAAP	930-360 930-805
04-4	Allocation of Goodwill to Reporting Units for a Mining Enterprise	Removed from the EITF Agenda Complete	N/A	App D - NA GAAP	
04-5	Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights	Complete	N/A	App D - NA GAAP	810-20
04-6	Accounting for Stripping Costs Incurred during Production in the Mining Industry	Complete	N/A	App D - NA GAAP	930-10 930-330
04-7	Determining Whether an Interest Is a Variable Interest in a Potential Variable Interest Entity	Removed From Agenda – Issue Addressed in FSP FIN 46R-6 Complete	N/A	App D - NA GAAP	

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
04-8	The Effect of Contingently Convertible Instruments on Diluted Earnings per Share	Complete	N/A	App D - NA GAAP	260-10
04-9	Accounting for Suspended Well Costs	Resolved by FSP FAS 19-1			
04-10	Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds	Complete	N/A	App D - NA GAAP	280-10
04-11	Accounting in a Business Combination for Deferred Postcontract Customer Support Revenue of a Software Vendor	No longer technically helpful			
04-12	Determining Whether Equity-Based Compensation Awards Are Participating Securities	Removed from EITF agenda			
04-13	Accounting for Purchases and Sales of Inventory with the Same Counterparty	Complete	N/A	App D - NA GAAP	845-10
05-1	Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option	Pending			470-20
05-2	The Meaning of "Conventional Convertible Debt Instrument" in Issue No. 00-19	Pending			815-40
05-3	Accounting for Rental Costs Incurred during the Construction Period	Removed from EITF agenda			
05-4	The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to Issue No. 00-19	Removed from EITF agenda			
05-5	Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)	Complete	N/A	App D - NA GAAP	715-30
05-6	Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination	Complete	N/A INT 06-10 nullified.	App D - NA GAAP	805-20 840-10
05-7	Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues	Superseded by EITF Issue No. 06-6			
05-8	Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature	Complete	N/A	App D - NA GAAP	740-10
06-1	Accounting for Consideration Given by a Service Provider to a Manufacturer or Reseller of Equipment Necessary for an End-Customer to Receive Service from the Service Provider	Complete	N/A	App D - NA GAAP	605-50
06-2	Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43	Complete	Adopt	11	710-10

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
06-3	How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)	Complete	Adopt/M	35R	605-45
06-4	Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements	Complete	Adopt	92	715-60
06-5	Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4	Complete	Adopt/M	21R	325-30
06-6	Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments	Pending			470-50
06-7	Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133	Complete	N/A	App D - NA GAAP	470-20 815-15
06-8	Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums	Complete	Adopt/M	40R	360-20
06-9	Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee	Complete	Adopt/M	48, 97	810-10
06-10	Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements	Complete	N/A	App D - NA GAAP	715-60
06-11	Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards	Pending			718-740
06-12	Accounting for Physical Commodity Inventories for Entities within the Scope of the AICPA Audit and Accounting Guide, Brokers and Dealers in Securities	No EITF Consensus			
07-1	Accounting for Collaborative Arrangements	Complete	N/A	App D - NA GAAP	808-10
07-2	Accounting for Convertible Debt Instruments That Are Not Subject to the Guidance in Paragraph 12 of APB Opinion No. 14	Removed from Agenda			
07-3	Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities	Complete	N/A	17, 29	730-10 730-20
07-4	Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships	Complete	N/A	App D - NA GAAP	260-10

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
07-5	Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock	Complete	N/A	App D - NA GAAP	718-10 815-40
07-6	Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, When the Agreement Includes a Buy-Sell Clause	Complete	Adopt	40R	360-20
08-1	Revenue Recognition for a Single Unit of Accounting (The name of EITF 08-1 has be changed to "Revenue Arrangements with Multiple Deliverables."	Reflected in ASU 2009-13			Not Explicitly Included in Codification.
08-2	Lessor Revenue Recognition for Maintenance Services	Removed from Agenda			
08-3	Accounting by Lessees for Maintenance Deposits	Complete	Adopt/M	19, 22	840-10
08-4	Transition Guidance for Conforming Changes to Issue No. 98-5	Pending			Not Explicitly Included in Codification.
08-5	Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement	Pending			820-10 825-10
08-6	Equity Method Investment Accounting Considerations	Pending			323-10
08-7	Accounting for Defensive Intangible Assets	Complete	Adopt/M	20	350-30
08-8	Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary	Complete	N/A	App D - NA GAAP	810-10 815-10 815-40
08-9	Milestone Method of Revenue Recognition	Reflected in ASU 2010-17			Not Explicitly Included in Codification.
08-10	Selected Statement 160 Implementation Questions	No EITF Consensus			
09-1	Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance	Reflected in ASU 2009-15			Not Explicitly Included in Codification.
09-2	Research and Development Assets Acquired in an Asset Acquisition	Removed from Agenda			
09-3	Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Include Software Elements	Reflected in ASU 2009-14			Not Explicitly Included in Codification.
09-4	Seller Accounting for Contingent Consideration	No EITF Consensus			

Note: "EITF Abstracts, Appendix D - Other Technical Matters" have been included in the FASB Codification, but have not previously been reviewed for statutory accounting. As such, these items have not been included in this Appendix D. Before the FASB Codification, these items were not considered to be in the top three levels of the FASB hierarchy and, thus, not reviewed as part of the statutory maintenance process.

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PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
AICPA PRACTICE BULLETINS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
PB 1	Purpose and Scope of AcSEC Practice Bulletins and Procedures for Their Issuance	Complete			
	Exhibit A	Complete	Adopt	19	310-10
	Exhibit B through Exhibit H	Complete	N/A		360-10
	Exhibit I	Complete	Adopt	3[illegible]	
PB 2	Elimination of Profits Resulting From Intercompany Transfers of LIFO Inventories	Complete	N/A	App D - NA GAAP	810-10
PB 3	Prepayments Into the Secondary Reserve of the FSLIC and Contingencies Related to Other Obligations of the FSLIC	Withdrawn 1990			
PB 4	Accounting for Foreign Debt/Equity Swaps	Complete	Adopt	26R	942-310
PB 5	Income Recognition on Loans to Financially Troubled Countries	Complete	N/A	App D - NA GAAP	942-310
PB 6	Amortization of Discounts on Certain Acquired Loans	Superseded by SOP 03-3			
		Complete	Reject	37	
PB 7	Criteria for Determining Whether Collateral for a Loan Has Been In-Substance Foreclosed	Withdrawn 1994			
PB 8	Application of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, to Insurance Enterprises	Complete	Reject	51R, 52	944-20 944-30 944-60 944-605 944-825
PB 9	Disclosures of Fronting Arrangements by Fronting Companies	Superseded by FAS 113			
PB 10	Amendment to Practice Bulletin 7, Criteria for Determining Whether Collateral for a Loan Has Been In-Substance Foreclosed	Withdrawn 1994			
PB 11	Accounting for Preconfirmation Contingencies in Fresh-Start Reporting	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification.
PB12	Reporting Separate Investment Fund Option Information of Defined Contribution Pension Plans	Superseded by SOP 99-3			
		Complete	N/A	App D - NA GAAP	
PB 13	Direct-Response Advertising and Probable Future Benefits	Complete	Reject	29	340-20 944-30
PB 14	Accounting and Reporting by Limiting Liability Companies and Limited Liability Partnerships	Complete	N/A	App D - NA GAAP	272-10 850-10
PB 15	Accounting by the Issuer of Surplus Notes	Complete	Reject	41R	944-470

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PRE-CODIFICATION STANDARDS - CATEGORY D GAAP
AICPA ACCOUNTING INTERPRETATIONS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
AIN-ARB43 Chapter 13B	Compensation Involved in Stock Option and Stock Purchase Plans: Unofficial Accounting Interpretations of Accounting Research Bulletin No. 43, Chapter 13B	Superseded by APB 25			
AIN-Key Man Life	Deferred Compensation Contracts: Unofficial Accounting Interpretations	Superseded by FTB 85-4			
AIN-ARB51	Consolidated Financial Statements: Accounting Interpretations of ARB No. 51	Superseded by FAS 111			
AIN-APB4	Accounting for the Investment Credit: Accounting Interpretations of APB Opinion No. 4	Complete Items 1, 2, & 3 Items 4, 5, & Superseded by FAS 96, 109 & 111	Reject	10, 10R, 101	Not Included in Codification As No Longer Applicable Or Relevant
AIN-APB7	Accounting for Leases in Financial Statements of Lessors: Accounting Interpretations of APB Opinion No. 7	Superseded by FAS 111			
AIN-APB8	Accounting for the Cost of Pension Plans: Accounting Interpretation of APB Opinion No. 8	Superseded by FAS 111			
AIN-APB9	Reporting the Results of Operations: Unofficial Accounting Interpretations of APB Opinion No. 9	Complete Item 1 Item 2 Superseded by FAS 111	Reject	3	225-20
AIN-APB11	Accounting for Income Taxes: Accounting Interpretations of APB Opinion No. 11	Deleted by FAS 96 & FAS 109			
AIN-APB15	Computing Earnings per Share: Accounting Interpretations of APB Opinion No. 15	Superseded by FAS 128 Complete	N/A	App D – NA GAAP	
AIN-APB16	Business Combinations: Accounting Interpretations of APB Opinion No. 16	Superseded by FAS 141 Complete	Reject Reject No. 39	68 25	

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PRE-CODIFICATION STANDARDS - CATEGORY D GAAP
AICPA ACCOUNTING INTERPRETATIONS

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
AIN-APB17	Intangible Assets: Unofficial Accounting Interpretations of APB Opinion No. 17	Superseded by FAS 142 Complete	 Reject	 6	
AIN-APB18	The Equity Method of Accounting for Investments in Common Stock: Accounting Interpretations of APB Opinion No. 18	Complete	Reject	46, 88, 7	323-10 323-30 810-10
AIN-APB19	Reporting Changes in Financial Position: Accounting Interpretations of APB Opinion No. 19	Superseded by FAS 95			
AIN-APB20	Accounting Changes: Accounting Interpretations of APB Opinion No. 20	Superseded by FAS 128 Complete	 Reject	 3	
AIN-APB21	Interest on Receivables and Payables: Accounting Interpretations of APB Opinion No. 21	Complete	Adopt	15	932-835
AIN-APB22	Disclosure of Accounting Policies: Accounting Interpretations of APB Opinion No. 22	Superseded by FAS 111			
AIN-APB23	Accounting for Income Taxes: Special Areas: Accounting Interpretations of APB Opinion No. 23	Superseded by FAS 96 & FAS 109			
AIN-APB25	Accounting for Stock Issued to Employees: Accounting Interpretations of APB Opinion No. 25	Superseded by FAS 123(R) Complete	 Adopt N/A	 13 104R	
AIN-APB26	Early Extinguishment of Debt: Accounting Interpretations of APB Opinion No. 26	Complete	Adopt	15	470-20 470-50
AIN-APB30	Reporting the Result of Operations: Accounting Interpretations of APB Opinion No. 30	Complete	Reject	24	225-20

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Appendix D
Nonapplicable GAAP Pronouncements for Statutory Accounting as of December 2018

In 2015, Issue Paper No. 99—Nonapplicable GAAP Pronouncements was removed from Appendix E and incorporated into this section of Appendix D.

For items presented to the Statutory Accounting Principles (E) Working Group, this table addresses Generally Accepted Accounting Principles (GAAP) pronouncements that are nonapplicable due to one of the following reasons:

a. The pronouncement does not relate to the insurance industry;

b. The pronouncement is not within the objectives of statutory accounting;

c. The pronouncement would not add a substantive amount of guidance to statutory accounting due to the narrow scope of the topic;

d. The pronouncement relates to transition of a previously issued GAAP pronouncement.

For items previously presented to the Emerging Accounting Issues (E) Working Group, this table includes references to EITFs that have been rejected for the following reasons:

a. Rejected as not applicable to statutory accounting;

b. Rejected without providing additional statutory guidance;

c. Rejected on the basis of issues rejected in a SSAP.

*NOTE: EITFs marked with an asterisk were rejected as not applicable to statutory accounting on the basis of issues rejected in a SSAP (paragraph c. above).

GAAP pronouncements[1] not considered applicable to NAIC statutory accounting principles are summarized as follows:

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
FASB Accounting Standards Updates (ASU)	
ASU 2009-02	Omnibus Update—Amendments to Various Topics for Technical Corrections
ASU 2009-13	Revenue Recognition: Multiple Deliverable Revenue Arrangements
ASU 2009-15	Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing
ASU 2010-01	Equity: Accounting for Distributions to Shareholders with Components of Stock and Cash
ASU 2010-03	Extractive Activities—Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures
ASU 2010-16	Entertainment—Casinos (Topic 924): Accruals for Casino Jackpot Liabilities

[1] Non-EITF GAAP guidance that is rejected explicitly in an SSAP is not included within this listing.

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NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
ASU 2010-17	Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition
ASU 2010-24	Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries
ASU 2010-25	Plan Accounting—Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans
ASU 2010-27	Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers
ASU 2011-05	Comprehensive Income (Topic 220): Presentation of Comprehensive Income
ASU 2011-07	Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities
ASU 2011-12	Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05
ASU 2012-01	Health Care Entities (Topic 954): Continuing Care Retirement Communities—Refundable Advance Fees
ASU 2012-04	Technical Corrections and Improvements
ASU 2012-07	Entertainment—Films (Topic 926): Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs
ASU 2013-02	Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income
ASU 2013-07	Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting
ASU 2013-08	Financial Services – Investment Companies – Amendments to the Scope, Measurement and Disclosure Requirements
ASU 2013-12	Definition of a Public Business Entity—An Addition to the Master Glossary
ASU 2014-06	Technical Corrections and Improvements Related to Glossary Terms
ASU 2014-10	Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation
ASU 2014-13	Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity
ASU 2015-06	Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions
ASU 2015-11	Inventory (Topic 330)—Simplifying the Measurement of Inventory
ASU 2015-12	Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965)
ASU 2015-13	Derivatives and Hedging (Topic 815)—Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets
ASU 2016-04	Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products
ASU 2016-11	Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting
ASU 2017-02	Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity
ASU 2017-03	Amendments to SEC Guidance
ASU 2017-06	Defined Benefit Pension Plans, Defined Contribution Pension Plans, and Health and Welfare Benefit Plan – Master Trust Reporting
ASU 2017-15	Codification Improvements to Topic 995, U.S. Steamship Entities, Elimination of Topic 995

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NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
Pre-Codification FASB Statements (FAS)	
FAS 03	Reporting Accounting Changes in Interim Financial Statements—an amendment of APB Opinion No. 28
FAS 06	Classification of Short-Term Obligations Expected to Be Refinanced—an amendment of ARB No. 43, Chapter 3A
FAS 11	Accounting for Contingencies: Transition Method—an amendment of FASB Statement No. 5
FAS 14	Financial Reporting for Segments of a Business Enterprise
FAS 18	Financial Reporting for Segments of a Business Enterprise: Interim Financial Statements—an amendment of FASB Statement No. 14
FAS 19	Financial Accounting and Reporting by Oil and Gas Producing Companies
FAS 21	Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises—an amendment of APB Opinion No. 15 and FASB Statement No. 14
FAS 24	Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report—an amendment of FASB Statement No. 14
FAS 25	Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies—an amendment of FASB Statement No. 19
FAS 30	Disclosure of Information about Major Customers—an amendment of FASB Statement No. 14
FAS 35	Accounting and Reporting by Defined Benefit Pension Plans
FAS 37	Balance Sheet Classification of Deferred Income Taxes—an amendment of APB Opinion No. 11
FAS 44	Accounting for Intangible Assets of Motor Carriers—an amendment of Chapter 5 of ARB No. 43 and an Interpretation of APB Opinions 17 and 30
FAS 45	Accounting for Franchise Fee Revenue
FAS 47	Disclosure of Long-Term Obligations
FAS 48	Revenue Recognition When Right of Return Exists
FAS 49	Accounting for Product Financing Arrangements
FAS 50	Financial Reporting in the Record and Music Industry
FAS 51	Financial Reporting by Cable Television Companies
FAS 53	Financial Reporting by Producers and Distributors of Motion Picture Films
FAS 63	Financial Reporting by Broadcasters
FAS 65	Accounting for Certain Mortgage Banking Activities
FAS 68	Research and Development Arrangements
FAS 69	Disclosures about Oil and Gas Producing Activities—an amendment of FASB Statements 19, 25, 33, and 39
FAS 71	Accounting for the Effects of Certain Types of Regulation
FAS 72	Accounting for Certain Acquisitions of Banking or Thrift Institutions—an amendment of APB Opinion No. 17, an Interpretation of APB Opinions 16 and 17, and an amendment of FASB Interpretation No. 9
FAS 73	Reporting a Change in Accounting for Railroad Track Structures—an amendment of APB Opinion No. 20
FAS 74	Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units—an amendment of FASB Statement No. 35
FAS 78	Classification of Obligations That Are Callable by the Creditor—an amendment of ARB No. 43, Chapter 3A
FAS 85	Yield Test for Determining whether a Convertible Security Is a Common Stock Equivalent—an amendment of APB Opinion No. 15
FAS 89	Financial Reporting and Changing Prices
FAS 90	Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs—an amendment of FASB Statement No. 71
FAS 92	Regulated Enterprises—Accounting for Phase-In Plans— an amendment of FASB Statement

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NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
	No. 71
FAS 93	Recognition of Depreciation by Not-for-Profit Organizations
FAS 99	Deferral of the Effective Date of Recognition of Depreciation by Not-for-Profit Organizations—an amendment of FASB Statement No. 93
FAS 101	Regulated Enterprises—Accounting for the Dis-continuation of Application of FASB Statement No. 71
FAS 110	Reporting by Defined Benefit Pension Plans of Investment Contracts—an amendment of FASB Statement No. 35
FAS 111	Rescission of FASB Statement No. 32 and Technical Corrections
FAS 117	Financial Statements of Not-for-Profit Organizations
FAS 124	Accounting for Certain Investments Held by Not-For-Profit Organizations
FAS 128	Earnings per Share
FAS 130	Reporting Comprehensive Income
FAS 131	Segment Disclosures
FAS 134	Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise, an amendment of FASB Statement No. 65
FAS 135	Rescission of FASB Statement No. 75 and Technical Corrections
FAS 136	Transfers of Assets to a Not-For-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others
FAS 139	Rescission of FASB Statement No. 53
FAS 143	Accounting for Asset Retirement Obligations
FAS 147	Acquisitions of Certain Financial Institutions, an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9
FAS 151	Inventory Costs, an amendment of ARB No. 43 (FAS 151), Chapter 4
FAS 159	The Fair Value Option for Financial Assets and Financial Liabilities
FAS 160	Noncontrolling Interests in Consolidated Financial Statements—an Amendment of ARB No. 51
Pre-Codification FASB Interpretation	
FIN 01 (APB 20)	Accounting Changes Related to the Cost of Inventory
FIN 08 (FASB 6)	Classification of a Short-Term Obligation Repaid Prior to Being Replaced by a Long-Term Security
FIN 09 (APB 16 & 17)	Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method
FIN 21 (APB 15 & FASB 28)	Treatment of Stock Compensation Plans in EPS Computations
FIN 33 (FASB 34)	Applying FASB Statement No. 34 to Oil and Gas Producing Operations Accounted for by the Full Cost Method
FIN 36 (FASB 19)	Accounting for Exploratory Wells in Progress at the End of a Period
FIN 42 (FASB 116)	Accounting for Transfers of Assets in Which a Not-for-Profit Organization is Granted Variance Power
FIN 47 (FASB 143)	Accounting for Conditional Asset Retirement Obligations
Pre-Codification Accounting Principles Board Opinions (APB)	
APB 13	Amending Paragraph 6 of APB Opinion No. 9, Application to Commercial Banks

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NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
APB 15	Earnings Per Share
Pre-Codification Accounting Research Bulletins (ARB)	
ARB 43	Restatement and Revision of Accounting Research Bulletins, Chapter 4
ARB 45	Long-Term Construction-Type Contracts
Pre-Codification FASB Technical Bulletins (TB)	
TB 79-1	Purpose and Scope of FASB Technical Bulletins and Procedures for Issuance
TB 79-3	Subjective Acceleration Clauses in Long-Term Debt Agreements
TB 79-4	Segment Reporting of Puerto Rican Operations
TB 79-5	Meaning of the Term "Customer" as it Applies to Health Care Facilities under FASB Statement No. 14
TB 79-8	Applicability of FASB Statements 21 and 33 to Certain Brokers and Dealers in Securities
TB 82-2	Accounting for the Conversion of Stock Options into Incentive Stock Options as a Result of the Economic Recovery Tax Act of 1981
TB 84-1	Accounting for Stock Issued to Acquire the Results of a Research and Development Arrangement
TB 85-1	Accounting for the Receipt of Federal Home Loan Mortgage Corporation Participating Preferred Stock
TB 87-2	Computation of a Loss on an Abandonment
TB 87-3	Accounting for Mortgage Servicing Fees and Rights
TB 90-1	Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts
Pre-Codification FASB Staff Positions (FSP)	
FSP FAS 19-1	Accounting for Suspended Well Costs
FSP FAS 117-1	Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds
FSP FAS 126-1	Disclosure and Interim Reporting for Obligors for Conduit Debt Securities
FSP FAS 143-1	Accounting for Electronic Equipment Waste Obligations
FSP FAS 150-3	Effective Date, Disclosures and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests Under FASB Statement No. 150
FSP FAS 150-5	Issuer's Accounting Under FASB Statement 150 for Freestanding Warrants and Other Similar Instruments on Shares That are Redeemable
FSP FIN 46(R)-7	Application of FASB Interpretation No. 46(R) to Investment Companies
FSP AAGINV-1 and SOP 94-4-1	Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans
FSP AUG AIR-1	Accounting for Planned Major Maintenance Activities
FSP SOP 78-9-1	Interaction of AICPA Statement of Position 78-9 and EITF Issue 04-5
FSP SOP 90-7-1	An Amendment of AICPA Statement of Position 90-7
FSP SOP 94-3-1 and AAG HCO-1	*Omnibus Changes to Consolidate and Equity Method Guidance for Not-For-Profit Organizations*
FSP SOP 07-1-1	Effective Date of AICPA Statement of Position 07-1
FSP EITF 85-24-1	Application of EITF Issue No. 85-24 When Cash for the Right to Future Distribution Fees for Shares Previously Sold is Received from Third Parties
Pre-Codification AICPA Statement of Positions	
SOP 14040	Confirmation of Insurance Policies in Force
SOP 14060	Auditing Property and Liability Reinsurance
SOP 14070	Auditing Life Reinsurance

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NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
SOP 74-8	Financial Accounting and Reporting by Colleges and Universities
SOP 75-2	Accounting Practices of Real Estate Investment Trusts
SOP 76-3	Accounting Practices for Certain Employee Stock Ownership Plans
SOP 78-9-1	Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5
SOP 78-10	Accounting Principles and Reporting Practices for Certain Nonprofit Organizations
SOP 81-1	Accounting for Performance of Construction-Type and Certain Production-Type Contracts
SOP 82-1	Accounting and Financial Reporting for Personal Financial Statements
SOP 83-1	Reporting by Banks of Investment Securities Gains or Losses
SOP 85-3	Accounting by Agricultural Producers and Agricultural Cooperatives
SOP 87-2	Accounting for Joint Costs of Informational Materials and Activities of Not-For-Profit Organizations That Include a Fund-Raising Appeal
SOP 88-1	Accounting for Developmental and Preoperating Costs, Purchases and Exchanges of Take-off and Landing Slots, and Airframe Modifications
SOP 89-2	Reports on Audited Financial Statements of Investment Companies
SOP 89-3	Questions Concerning Accountants' Services on Prospective Financial Statements
SOP 89-5	Financial Accounting and Reporting by Providers of Prepaid Health Care Services
SOP 89-7	Report on the Internal Control Structure in Audits of Investment Companies
SOP 90-1	Accountants' Services on Prospective Financial Statements for Internal Use Only and Partial Presentations
SOP 90-2	Report on Internal Control Structure in Audits of Futures Commission Merchants
SOP 90-7	Financial reporting by entities in reorganization under the Bankruptcy Code
SOP 90-8	Financial Accounting and Reporting by Continuing Care Retirement Communities
SOP 91-1	Software Revenue Recognition
SOP 92-2	Questions and Answers on the Term *Reasonably Objective Basis* and Other Issues Affecting Prospective Financial Statements
SOP 92-6	Accounting and Reporting by Health and Welfare Benefit Plans
SOP 92-8	Auditing Property/Casualty Insurance Entities Statutory Financial Statements—Applying Certain Requirements of the NAIC Annual Statement Instructions
SOP 92-9	Audits of Not-for-Profit Organizations Receiving Federal Awards
SOP 93-1	Financial Accounting and Reporting for High-Yield Debt Securities by Investment Companies
SOP 93-2	Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies
SOP 93-3	Rescission of Accounting Principles Board Statements
SOP 93-4	Foreign Currency Accounting and Financial Statement Presentation for Investment Companies
SOP 93-5	Reporting on Required Supplementary Information Accompanying Compiled or Reviewed Financial Statements of Common Interest Realty Associations
SOP 93-8	The Auditor's Consideration of Regulatory Risk-Based Capital for Life Insurance Enterprises
SOP 94-1	Inquiries of State Insurance Regulators
SOP 94-2	The Application of the Requirements of Accounting Research Bulletins, Opinions of the Accounting Principles Board, and Statements and Interpretations of the Financial Accounting Standards Board to Not-for-Profit Organizations
SOP 94-3	Reporting of Related Entities by Not-for-Profit Organizations
SOP 94-4	Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans
SOP 95-2	Financial Reporting by Nonpublic Investment Partnerships
SOP 95-3	Accounting for Certain Distribution Costs of Investment Companies
SOP 95-4	Letters for State Insurance Regulators to Comply with the NAIC Model Audit Rule
SOP 95-5	Auditor's Reporting on Statutory Financial Statements of Insurance Enterprises
SOP 98-2	Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local

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NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
	Governmental Entities That Include Fund Raising
SOP 98-3	Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards
SOP 98-6	Reporting on Management's Assessment Pursuant to the Life Insurance Ethical Market Conduct Program of the Insurance Marketplace Standards Association
SOP 98-8	Engagements to Perform Year 2000 Agreed-Upon Procedures Attestation Engagements Pursuant to Rule 17a-5 of the Securities Exchange Act of 1934, Rule 17Ad-18 of the Securities Exchange Act of 1934, and Advisories No. 17-98 and No. 2-98 of the Commodity Futures Trading Commission
SOP 99-1	Guidance To Practitioners In Conducting And Reporting On An Agreed-Upon Procedures Engagement To Assist Management In Evaluating The Effectiveness Of Its Corporate Compliance Program
SOP 99-2	Accounting for and Reporting of 401(h) Features of Defined Benefit Pension Plans
SOP 99-3	Accounting and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters
SOP 00-1	Auditing Health Care Third-Party Revenues and Related Receivables
SOP 00-2	Accounting by Producers of Films
SOP 01-1	Amendment to Scope of Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships, to include Commodity Pools
SOP 01-2	Accounting and Reporting by Health and Welfare Benefit Plans
SOP 01-3	Performing Agreed-Upon Procedures Engagements That Address Internal Control Over Derivative Transactions as Required by the New York State Insurance Law
SOP 01-4	Reporting Pursuant to the Association for Investment Management and Research Performance Presentation Standards
SOP 01-6	Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others
SOP 02-1	Performing Agreed-Upon Procedures Engagements That Address Annual Claims Prompt Payment Reports as Required by the New Jersey Administrative Code
SOP 02-2	Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations and Clarification of the Performance Indicator
SOP 03-2	Attest Engagements on Greenhouse Gas Emissions Information
SOP 03-4	Reporting Financial Highlights and Schedule of Investments by Nonregistered Investment Partnerships: An Amendment to the Audit and Accounting Guide Audits of Investment Companies and AICPA Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships
SOP 03-5	Financial Highlights of Separate Accounts: An Amendment to the Audit and Accounting Guide "Audits of Investment Companies"
SOP 04-1	Auditing the Statement of Social Insurance
SOP 04-2	Accounting for Real Estate Time-Sharing Transactions
SOP 06-1	Reporting Pursuant to the Global Investment Performance Standards
SOP 07-1	Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies
SOP 07-2	Attestation Engagements That Address Specified Compliance Control Objectives and Related Controls at Entities That Provide Services to Investment Companies, Investment Advisers, or Other Service Providers
SOP 09-1	Performing Agreed-Upon Procedures Engagements That Address the Completeness, Accuracy or Consistency of XBRL-Tagged Data
Pre-Codification FASB EITF	
EITF 84-9	Deposit Float of Banks
EITF 85-8	Amortization of Thrift Intangibles

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NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
EITF 85-12	Retention of Specialized Accounting for Investments in Consolidation
EITF 85-13	Sale of Mortgage Service Rights on Mortgages Owned by Others
EITF 85-18	Earnings-per-Share Effect of Equity Commitment Notes
EITF 85-23	Effect of a Redemption Agreement on Carrying Value of a Security
EITF 85-24	Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge
EITF 85-27	Recognition of Receipts from Made-Up Rental Shortfalls
EITF 85-31	Comptroller of the Currency's Rule on Deferred Tax Debits
EITF 85-41	Accounting for Savings and Loan Associations under FSLIC Management Consignment Program
EITF 85-42	Amortization of Goodwill Resulting from Recording Time Savings Deposits at Fair Values
EITF 85-44	Differences between Loan Loss Allowances for GAAP and RAP
EITF 86-2	Retroactive Wage Adjustments Affecting Medicare Payments
EITF 86-3	Retroactive Regulations regarding IRC Section 338 Purchase Price Allocations
EITF 86-5	Classifying Demand Notes with Repayment Terms
EITF 86-7	Recognition by Homebuilders of Profit from Sales of Land and Related Construction Contracts
EITF 86-12	Accounting by Insureds for Claims-Made Insurance Policies
EITF 86-13	Recognition of Inventory Market Declines at Interim Reporting Dates
EITF 86-24	Third-Party Establishment of Collateralized Mortgage Obligations
EITF 86-27	Measurement of Excess Contributions to a Defined Contribution Plan or Employee Stock Ownership Plan
EITF 86-30	Classification of Obligations When a Violation is Waived by the Creditor
EITF 86-31	Reporting the Tax Implications of a Pooling of a Bank and a Savings and Loan Association
EITF 86-40	Investments in Open-End Mutual Funds That Invest in U.S. Government Securities
EITF 86-44	Effect of a Change in Tax Law on Investments in Safe Harbor Leases
EITF 86-46	Uniform Capitalization Rules for Inventory under the Tax Reform Act of 1986
EITF 87-4	Restructuring of Operations: Implications of SEC Staff Accounting Bulletin No. 67
EITF 87-10	Revenue Recognition by Television (Barter) Syndicators
EITF 87-20	Offsetting Certificates of Deposit against High-Coupon Debt
EITF 87-22	Prepayments to the Secondary Reserve of the FSLIC
EITF 87-24	Allocation of Interest to Discontinued Operations
EITF 87-30	Sale of a Short-Term Loan Made under a Long-Term Credit Commitment
EITF 88-4	Classification of Payment Made to IRS to Retain Fiscal Year
EITF 88-16	Basis in Leveraged Buyout Transactions
EITF 88-19	FSLIC-Assisted Acquisitions of Thrifts
EITF 88-20	Difference between Initial Investment and Principal Amount of Loans in a Purchased Credit Card Portfolio
EITF 88-25	Ongoing Accounting and Reporting for a Newly Created Liquidating Bank
EITF 89-3	Balance Sheet Presentation of Savings Accounts in Financial Statements of Credit Unions
EITF 89-19	Accounting for a Change in Goodwill Amortization for Business Combinations Initiated Prior to the Effective Date of FASB Statement No. 72
EITF 89-20	Accounting for Cross Border Tax Benefit Leases
EITF 90-4	Earnings-per-Share Treatment of Tax Benefits for Dividends on Stock Held by an Employee Stock Ownership Plan
EITF 90-16	Accounting for Discontinued Operations Subsequently Retained
EITF 90-18	Effect of a "Removal of Accounts" Provision on the Accounting for a Credit Card Securitization
EITF 91-6	Revenue Recognition of Long-Term Power Sales Contracts
EITF 91-9	Revenue and Expense Recognition for Freight Services in Process
EITF 91-10	Accounting for Special Assessments and Tax Increment Financing Entities (TIFEs)

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NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
EITF 92-3	Earnings-per-Share Treatment of Tax Benefits for Dividends on Unallocated Stock Held by an Employee Stock Ownership Plan
EITF 92-5	Amortization Period for Net Deferred Credit Card Origination Costs
EITF 92-7	Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs
EITF 92-12	Accounting for OPEB Costs by Rate-Regulated Enterprises
EITF 92-13	Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992
EITF 93-1	Accounting for Individual Credit Card Acquisitions
EITF 93-9	Application of FASB Statement No. 109 in Foreign Financial Statements Restated for General Price-Level Changes
EITF 93-12	Recognition and Measurement of the Tax Benefit of Excess Tax-Deductible Goodwill Resulting from a Retroactive Change in Tax Law
EITF 94-2	Treatment of Minority Interests in Certain Real Estate Investment Trusts
EITF 95-1	Revenue Recognition on Sales with a Guaranteed Minimum Resale Value
EITF 95-4	Revenue Recognition on Equipment Sold and Subsequently Repurchased Subject to an Operating Lease
EITF 95-6	Accounting by a Real Estate Investment Trust for Its Investment in a Service Corporation
EITF 95-7	Implementation Issues Related to the Treatment of Minority Interests in Certain Real Estate Investment Trusts
EITF 95-22	Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement
EITF 96-7	Accounting for Deferred Taxes on In-Process Research and Development Activities Acquired in a Purchase Business Combination
EITF 96-16 *	Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights
EITF 96-17	Revenue Recognition under Long-Term Power Sales Contracts That Contain both Fixed and Variable Pricing Terms
EITF 97-1	Implementation Issues in Accounting for Lease Transactions, Including Those Involving Special-Purpose Entities
EITF 97-2	Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements
EITF 97-3 *	Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations after the Issuance of FASB Statement No. 25
EITF 97-4	Deregulation of the Pricing of Electricity
EITF 97-6	Application of Issue No. 96-20 to Qualifying Special-Purpose Entities Receiving Transferred Financial Assets Prior to the Effective Date of FASB Statement No. 125
EITF 97-7	Accounting for Hedges of the Foreign Currency Risk Inherent in an Available-for-Sale Marketable Equity Security
EITF 97-[illegible]	Effect on Pooling-of-Interests Accounting of Certain Contingently Exercisable Options or Other Equity Instruments
EITF 97-10 *	The Effect of Lessee Involvement in Asset Construction
EITF 9[illegible]15	Accounting for Contingency Arrangements Based on Security Prices in a Purchase Business Combinations
EITF 98-1	Valuation of Debt Assumed in a Purchase Business Combination
EITF 98-10	Accounting for Contracts Involved in Energy Trading and Risk Management Activities
EITF 99-1	Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary
EITF 99-3	Application of Issue No. 96-13 to Derivative Instruments with Multiple Settlement Alternatives
EITF 99-5	Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements
EITF 99-6	Impact of Acceleration Provisions in Grants Made between Initiation and Consummation of a Pooling-of-Interests Business Combination

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NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
EITF 99-7	Accounting for an Accelerated Share Repurchase Program
EITF 99-11	Subsequent Events Caused by Year 2000
EITF 99-13	Application of Issue No. 97-10 and FASB Interpretation No. 23 to Entities that Enter into Leases with Governmental Entities
EITF 99-15	Accounting for Decreases in Deferred Tax Asset Valuation Allowances Established in a Purchase Business Combination as a Result of a Change in Tax Regulations
EITF 99-16	Accounting for Transactions with Elements of Research and Development Arrangements
EITF 99-18	Effect on Pooling-of-Interests Accounting on Contracts Indexed to a Company's Own Stock
EITF 99-19	Reporting Revenue Gross as a Principal versus Net as an Agent
EITF 00-4	Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in That Subsidiary
EITF 00-6	Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary
EITF 00-7	Application of Issue No. 96-13 to Equity Derivative Instruments That Contain Certain Provisions that Require Net Cash Settlement if Certain Events Outside the Control of the Issuer Occur
EITF 00-10	Accounting for Shipping and Handling Fees and Costs
EITF 00-14	Accounting for Certain Sales Incentives
EITF 00-15	Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option
EITF 00-17	Measuring the Fair Value of Energy-Related Contracts in Applying Issue No. 98-10
EITF 00-19	Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, A Company's Own Stock
EITF 00-22	Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to be Delivered in the Future
EITF 01-3	Accounting in a Business Combination for Deferred Revenue of an Acquiree
EITF 01-5 *	Application of FASB Statement No. 52 to an Investment Being Evaluated for Impairment That Will Be Disposed Of
EITF 01-6	The Meaning of "Indexed to a Company's Own Stock"
EITF 01-9	Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)
EITF 01-12	The Impact of the Requirements of FASB Statement No. 133 on Residual Value Guarantees in Connection with a Lease
EITF 01-14	Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred
EITF 02-3 *	Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities
EITF 02-6	Classification in the Statement of Cash Flows of Payments Made to Settle an Asset Retirement Obligation within the Scope of FASB Statement No. 143
EITF 02-7 *	Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets
EITF 02-8	Accounting for Options Granted to Employees in Unrestricted, Publicly Traded Shares of an Unrelated Entity
EITF 02-13 *	Deferred Income Tax Considerations in Applying the Goodwill Impairment Test in FASB Statement No. 142
EITF 02-14 *	Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means
EITF 02-16	Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor
EITF 02-17 *	Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination
EITF 03-2	Accounting for the Transfer to the Japanese Government of the Substantial Portion of Employee Pension Fund Liabilities

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NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
EITF 03-6 *	Participating Securities and the Two-class Method under FASB Statement No. 128
EITF 03-10	Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers
EITF 03-11 *	Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not "Held for Trading Purposes" as Defined in Issue No. 02-3
EITF 03-12	The Impact of FASB Interpretation No. 45 on Issue No. 95-1
EITF 03-13	Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations
EITF 03-16 *	Accounting for Investments in Limited Liability Companies
EITF 04-1	Accounting for Preexisting Relationships between the Parties to a Business Combination
EITF 04-2	Whether Mineral Rights are Tangible or Intangible Assets
EITF 04-3	Mining Assets: Impairment and Business Combinations
EITF 04-4	Allocation of Goodwill to Reporting Units for a Mining Enterprise
EITF 04-5	Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights
EITF 04-6	Accounting for Stripping Costs Incurred During Production in the Mining Industry
EITF 04-7	Determining Whether an Interest is a Variable Interest in a Potential Variable Interest Entity
EITF 04-8	The Effect of Contingently Convertible Instruments on Diluted Earnings per Share
EITF 04-10	Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds
EITF 04-13	Accounting for Purchases and Sales of Inventory with the Same Counterparty
EITF 05-5	Accounting for Early Retirement or Postemployment Programs with Specified Features (Such as Term Specified in Altersteilzeit Early Retirement Arrangements)
EITF 05-6	Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination
EITF 05-8	Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature
EITF 06-1	Accounting for Consideration Given by a Specific Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider
EITF 06-07	Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133
EITF 06-10	Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements
EITF 07-1	Accounting for Collaborative Arrangements
EITF 07-4	Application of the Two-Class Method under FAS 128 to Master Limited Partnerships
EITF 07-5	Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock
EITF 08-8	Accounting for an Instrument (or an embedded feature) with a Settlement Amount That is Based on the Stock of an Entity's Consolidated Subsidiary
Pre-Codification AICPA Practice Bulletins (PB)	
PB 2	Elimination of Profits Resulting From Intercompany Transfers of LIFO Inventories
PB 5	Income Recognition on Loans to Financially Troubled Countries
PB 11	Accounting for Preconfirmation Contingencies in Fresh-Start Reporting
PB 12	Reporting Separate Investment Fund Option Information of Defined-Contribution Pension Plans
PB 14	Accounting and Reporting by Limiting Liability Companies and Limited Liability Partnerships
Pre-Codification AICPA Accounting Interpretations (AIN)	
AIN-APB15	Computing Earnings per Share: Accounting Interpretations of APB Opinion No. 15

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Appendix D
FASB Codification Cross-Reference to GAAP Pronouncements as of December 2018

Information provided within this Appendix D supplement has been obtained from the FASB Cross-Reference Tool. This supplement serves as a reference tool in tracing the FASB Codification to pre-codification GAAP standards and post-codification GAAP accounting standard updates (ASU) that have been reviewed, or are pending review, as part of the current NAIC statutory accounting maintenance process. This supplement does not indicate which GAAP standards have been adopted, adopted with modification or rejected for statutory accounting, as this information is contained in previous sections of this appendix. The following information is not included within this supplement:

- Pre-codification GAAP guidance that has not been captured as part of the statutory accounting maintenance process, but that has been incorporated into the FASB codification, which includes FASB Derivative Implementation Group Issues; EITF Appendix D Topics; FASB Statement No. 138 Examples; FASB Staff Implementation Guides; AICPA Technical Inquiry Service and Audit and Accounting Guides
- SEC standards incorporated within the FASB Codification SEC Financial Reporting Releases; SEC Interpretive Releases; SEC Staff Accounting Bulletins; and SEC Regulation S-X.
- GAAP codification topics (and/or subtopics) that have been deemed not applicable to statutory accounting (e.g. Topic 920 – Entertainment-Films)
- GAAP codification topics (and/or subtopics) that had no reference to previous GAAP guidance reflected in the FASB Cross-Reference Tool.

The Audit and Accounting Guides (AAG) related to insurance have been reviewed for statutory accounting and are referenced in this supplement – HCO: Health Care Organizations, LHI: Life and Health Insurance and PLI: Property and Liability Insurance Companies.

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
105 – Generally Accepted Accounting Principles			
105-10	Overall	2015-10; 2018-09	FAS 168
205 – Presentation of Financial Statements			
205-10	Overall	2011-05; 2013-07; 2014-08	FAS 52; FAS 130; FAS 144; ARB 43
205-20	Discontinued Operations	2014-08; 2015-10	FAS 128; FAS 142; FAS 144; SOP 94-6; EITF 87-24; EITF 03-13
205-30	Liquidation Basis of Accounting	2013-07	
205-40	Going Concern	2014-15	
210 –Balance Sheet			
210	Overall	2010-21	FAS 6; APB 12; ARB 43; SOP 81-1; SOP 90-7; SOP 00-2
210-20	Offsetting	2011-11; 2012-04; 2013-01	FIN 39; FIN 41; APB 10
215 – Statement of Shareholder Equity			
220 – Comprehensive Income			
220-10	Overall	2011-05; 2011-12; 2013-02; 2016-01; 2016-13; 2017-07; 2017-12; 2018-02; 2018-09; 2018-12	FAS 130; FAS 133

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GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
225 – Income Statement			
225-10	Overall	2010-21	APB 09
225-20	Extraordinary and Unusual Items	2015-01	FAS 109; FAS 144; FIN 18; APB 09; APB 18; APB 28; APB 30; FTB 85-06; AIN-APB9; AIN-APB30
225-30	Business Interruption Insurance		EITF 01-13
230 – Statement of Cash Flows			
230-10	Overall	2010-08; 2012-04; 2012-05; 2013-08; 2014-08; 2015-07; 2016-01; 2016-022016-02; 2016-09; 2016-13; 2016-14; 2016-15; 2016-18; 2018-07; 2018-08	FAS 95; FAS 1[illegible]; FAS 132; EITF 9[illegible]13; EITF 02-06
235 – Notes to Financial Statements			
235-10	Overall	2014-09	APB 22
250 – Accounting Changes and Error Corrections			
250-10	Overall	2017-03	FAS 16; FAS 128; FAS 154; FAS 157; FIN 01; APB 9; APB 18; APB 28
255 – Changing Prices			
255-10	Overall	[illegible]016-02	FAS 52; FAS 89; SOP 93-3; EITF 04-03
260 – Earnings per Share			
260-10	Overall	[illegible]009-08; 2009-15; 2015-06; [illegible]-09; 2017-11; 2018-07; 2018-09	FAS 123(R); FAS 128; FAS 129; FAS 150; APB 18; FSP EITF 03-06-1; EITF 97-14; EITF 99-07; EITF 00-27; EITF 03-06; EITF 04-08; EITF 07-04
270 – Interim Reporting			
270-10	Overall	2010-20; 2011-11; 2013-02; 2014-04; 2014-08; 2014-09; 2015-09; 2015-11; 2016-01; 2016-02; 2016-13; 2018-12	FAS 16; FAS 157; APB 28
272 – Limited Liability Entities			
272-10	Overall	2010-08	FAS 109; EITF 03-16; PB 14
274 – Personal Financial Statements			
274-10	Overall	2015-10	SOP 82-1
275 – Risks and Uncertainties			
275-10	Overall	2014-09; 2014-10; 2015-11	FSP FAS 142-3; SOP 94-6
280 – Segment Reporting			
280-10	Overall	2014-08	FAS 131; FAS 142; FAS 146; TB 79-04; EITF 04-10
305 – Cash and Cash Equivalents			
310 – Receivables			
310-10	Overall	2010-20; 2010-25; 2011-01; 2011-04; 2012-04; 2014-04; 2014-09; 2014-14; 2016-02; 2016-13; 2016-20	FAS 5; FAS 65; FAS 95; FAS 102; FAS 107; FAS 114; FAS 118; FAS 133; FAS 140; APB 12; APB 21; ARB 43; FSP SOP 94-6-1; SOP 97-3; SOP 01-6; SOP 03-3; EITF 85-01; EITF 85-20; EITF 86-21; EITF 88-20; PB 01

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GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
310-20	Nonrefundable Fees and Other Costs	2016-13; 2017-08	FAS 91; EITF 84-19; EITF 92-05; EITF 93-01; EITF 97-03; EITF 99-20; EITF 01-07; SOP 01-6
310-30	Loans and Debt Securities Acquired with Deteriorated Credit Quality	2010-18; 2016-13	FAS 114; EITF 99-20; SOP 97-1; SOP 03-3
310-40	Troubled Debt Restructurings by Creditors	2010-18; 2010-20; 2011-02; 2014-04; 2014-14; 2016-13; 2016-19	FAS 15; FAS 114; FAS 118; TB 80-0[illegible]; FSP FAS 144-1; EITF 8[illegible]18; EITF 87-19; EITF [illegible]9-14; EITF 94-08; EITF 96-22
320 – Investments–Debt and Equity Securities			
320-10	Overall	2015-10; 2016-01; 2016-13; 2018-04; 2018-09	FAS 115; FAS 140; TB 94-01; FSP FAS 115-1/124-1; SOP 78-9; EITF 86-40; EITF 96-10; EITF 96-11; EITF 96-12; EITF 96-15; EITF 98-13; EITF 98-15; EITF 99-20
321 – Investments-Equity Securities			
321-10	Overall	2018-03	
323 – Investments–Equity Method and Joint Ventures			
323-10	Overall	2010-02; 2013-08; 2014-02; 2014-01; 2014-07; 2016-13; 2016-05; 2018-07	FAS 128; FAS 130; FAS 142; FIN 35; FIN 46(R); APB 18; FSP APB 18-1; EITF 98-13; EITF 99-10; EITF 00-12; EITF 02-14; EITF 02-18; EITF 08-06; AIN-APB 18
323-30	Partnerships, Joint Ventures, and Limited Liability Entities		FSP APB 18-1; EITF 00-01; EITF 03-16; AIN-APB 18; SOP 78-9
323-740	Income Taxes	2014-01; 2016-01; 2017-03	EITF 94-01
325 – Investments–Other			
325-10	Overall	2016-01	FAS 60
325-20	Cost Method Investments	2016-01	APB 18; FSPFAS 115-1/124-1; EITF 91-05; EITF 94-01
325-30	Investments in Insurance Contracts		TB 85-04; FSP FTB 85-04-1; EITF 88-05; EITF 99-04; EITF 06-05
325-40	Beneficial Interests in Securitized Financial Assets	2016-13	EITF 99-20
326 – Financial Instruments – Credit Losses			
326-[illegible]	Overall	2016-13; 2017-03; 2018-19	
326-20	Measured at Amortized Cost	2016-13; 2018-19	
326-30	Available-for-Sale Debt Securities	2016-13	
330 – Inventory			
330-10	Overall	2012-04; 2014-09; 2015-11; 2017-07	FIN 01; ARB 43; EITF 86-13; EITF 86-46; EITF 96-09; EITF 01-09; SOP 94-6
340 – Other Assets and Deferred Costs			
340-10	Overall	2010-22; 2014-09	ARB 43 Chapter 3a; FSP AUG AIR-1; EITF 99-05

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GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
340-20	Capitalized Advertising Costs		SOP 93-7; PB 13
340-30	Insurance Contracts that Do Not Transfer Insurance Risk		SOP 98-7
340-40	Contracts with Customers	2014-09; 2016-20	
350 – Intangibles–Goodwill and Other			
350-10	Overall	2014-09; 2017-04; 2017-05; 2018-15	FAS 142; SOP 98-1; EITF 00-02
350-20	Goodwill	2010-28; 2011-08; 2012-04; 2014-02; 2016-03; 2017-04	FAS 131; FAS 142; EITF 02-13
350-30	General Intangibles Other than Goodwill	2012-02; 2017-04; 2018-01; 2018-12	FAS 141; FSP FAS 142-3; EITF 02-07; EITF 08-07
350-40	Internal Use Software	2014-09; 2015-05; 2016-19; 2017-04; 2018-15	SOP 98-1
350-50	Website Development Costs		SOP 98-1; EITF 00-02
360 – Property, Plant and Equipment			
360-10	Overall	2014-04; 2014-08; 2014-09; 2016-02; 2017-05	FAS 5; FAS 13; FAS 34; FAS 92; FAS 143; FAS 144; APB 12; ARB 43; TB 86-02; FSP AUG AIR-1; SOP 94-6; EITF 95-23; PB 1
360-20	Real Estate Sales	2014-09; 2016-19	FAS 66; FIN 43; EITF 84-17; EITF 86-06; EITF 87-09; EITF 88-12; EITF 88-24; EITF 95-23; EITF 98-08; EITF 00-13; EITF 06-08; EITF 07-06
405 – Liabilities			
405-20	Extinguishments of Liabilities	2016-04	FAS 140
405-30	Insurance-Related Assessments	2011-06	SOP 97-3
405-40	Obligations Resulting from Joint and Several Liabilities	2013-04; 2016-19	
410 – Asset Retirement and Environmental Obligations			
410-20	Asset Retirement Obligations	2012-04; 2014-09	FAS 13; FAS 143; FIN 47; FSP FAS 143-1; EITF 89-13; EITF 90-08; EITF 02-06
410-30	Environmental Obligations	2012-04	SOP 94-6; SOP 96-1; EITF 89-13; EITF 90-08
420 – Exit or Disposal Cost Obligations			
420-10	Overall	2016-02	FAS 43; FAS 87; FAS 106; FAS 112; FAS 146; FSP FAS 146-1; EITF 96-05; EITF 96-09
430 – Deferred Revenue			
430-10	Overall	2014-09	SOP 00-2
440 – Commitments			
440-10	Overall	2014-09; 2018-07	FAS 5; FAS 13; FAS 47; FAS 52; FAS 65; FAS 66; FAS 68; FAS 91; FAS 116; FAS 133; ARB 43; ARB 45; AAG-HCO; SOP 96-1; EITF 91-06; EITF 96-18; EITF 01-08

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450 – Contingencies			
450-10	Overall	2014-09	FAS 5; FAS 13; FAS 48; FAS 109; FAS 113; APB 28; FIN 30; SOP 97-2; SOP 98-7; EITF 93-14; EITF 96-05
450-20	Loss Contingencies	2010-20; 2016-13	FAS 5; FAS 15; FAS 16; FAS 132(R); FAS 143; FAS 146; FIN 14; FIN 47; ARB 43; AAG-HCO; SOP [illegible]-1; SOP 94-6; SOP 96-1; SOP 97-3; EITF 92-13; EITF 97-01; EITF 98-09
450-30	Gain Contingencies	2016-02	FAS 5; FIN 39; EITF 98-09; EITF 01-13; EITF 03-08
460 – Guarantees			
460-10	Overall	2012-04; 2014-09; 2016-13; 2016-19; 2018-10	FAS 5; FAS 13; FAS 35; FAS 48; FAS 66; FAS 140; FAS 150; FIN 19; FIN 45; FIN 46(R); APB 18; TB 90-01; FSP FIN 45-1; FSP FIN 45-2; FSP FIN 45-3; SOP 81-1; SOP 93-6; SOP 94-6; SOP 00-2; SOP 01-6; EITF 84-05; EITF 85-20; EITF 86-17; EITF 86-33; EITF 90-14; EITF 90-20; EITF 90-21; EITF 91-10; EITF 92-01; EITF 95-01; EITF 96-21; EITF 97-01: EITF 97-10; EITF 99-02: EITF 99-05; EITF 00-04; EITF 01-12; EITF 03-12
470 – Debt			
470-10	Overall		FAS 6; FAS 13; FAS 47; FAS 78; FAS 129; FIN 08; APB 21; ARB 43; TB 79-03; FSP FAS 129-1; EITF 86-05; EITF 86-15; EITF 86-28; EITF 86-30; EITF 88-15; EITF 88-18; EITF 95-22
470-20	Debt with Conversion and Other Options	2009-15; 2018-07	FAS 5; FAS 15; FAS 84; FAS 133; FAS 159; APB 14; FSP APB 14-1; FSP EITF 00-19-2; EITF 85-09; EITF 85-17; EITF 98-05; EITF 00-27; EITF 01-01; EITF 02-15; EITF 05-01; EITF 06-07; AIN APB 26
470-30	Participating Mortgage Loans	2015-10	SOP 97-1
470-40	Product Financing Arrangements	2014-09	FAS 49

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470-50	Modifications and Extinguishments	2018-09	FAS 140; FAS 145; APB 26; TB 80-01; EITF 96-19; EITF 98-14; EITF 06-06; AIN-APB 26
470-60	Troubled Debt Restructurings by Debtors	2016-13; 2016-19	FAS 15; TB 80-02; TB 81-06; EITF 02-04
480 – Distinguishing Liabilities from Equity			
480-10	Overall	2017-11; 2018-07; 2018-09	FAS 150; FSP FAS 150-1; FSP FAS 150-2; FSP FAS 150-3; FSP FAS 150-4; FSP FAS 150-5; EITF 89-11; EITF 00-04; EITF 00-19
505 – Equity			
505-10	Overall	2010-21; 2015-10; 2017-11; 2018-07	FAS 5; FAS 129; FAS 130; APB 9; APB 12; APB 14; ARB 43; ARB 51; FSP FAS 129-1; EITF 85-01; EITF 86-32; EITF 98-05; EITF 00-12; EITF 00-19; EITF 00-27
505-20	Stock Dividends and Stock Splits	2010-01	ARB 43
505-30	Treasury Stock		ARB 43; TB 85-6; EITF 99-07
505-50	ASC Topic 505-50 was superseded by Topic 718 as detailed in ASU 2018-07		
505-60	Spinoffs and Reverse Spinoffs		FAS 123(R); EITF 02-11
605 – Revenue Recognition			
605	ASC Topic 605 was superseded by Topic 606 as detailed in ASU 2014-09		
606 – Revenue from Contracts with Customers			
606-10	Overall	2014-09; 2015-14; 2016-01; 2016-08; 2016-10; 2016-12; 2016-13; 2016-20; 2017-03; 2017-13; 2018-07; 2018-08; 2018-18	
610 – Other Income			
610-10	Overall	2014-09	
610-20	Gains and Losses from the Derecognition of Nonfinancial Assets	2014-09; 2017-05	
610-30	Gains and Losses on Involuntary Conversions	2014-09	FIN 30; APB 29
705 – Cost of Sales and Services			
705-10	Overall	2014-09; 2015-11	
705-20	Accounting for Consideration Received from a Vendor	2018-07	EITF 02-16; EITF 03-10
710 – Compensation-General			
710-10	Overall		FAS 43; FAS 88; FAS 106; APB 12; EITF 88-23; EITF 93-03; EITF 96-05; EITF 97-14; EITF 06-02
712 – Compensation-Nonretirement Postemployment Benefits			
712-10	Overall		FAS 88; FAS 106; FAS 112; FAS 146; FIN 46(R); EITF 96-05

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715 – Compensation-Retirement Benefits			
715-10	Overall	2015-04; 2017-07	FAS 87; FAS 106
715-20	Defined Benefit Plans—General	2010-06; 2011-04; 2015-04; 2015-07; 2017-07; 2018-14	FAS 87; FAS 88; FAS 106; FAS 132(R); FAS 158; APB 12; EITF 88-01; EITF 03-02
715-30	Defined Benefit Plans—Pension	2011-09; 2012-04; 2015-04; 2017-07	FAS 87; FAS 88; FAS 106; FAS 130; FAS 146; FAS 158; FIN 46(R); FSP FAS 146-1; EITF 88-01; EITF 91-07; EITF 03-02; EITF 03-04; EITF 05-05
715-60	Defined Benefit Plans—Other Postretirement	2012-04; 2015-04; 2017-07	FAS 88; FAS 106; FAS 158; FIN 46(R); FSP FAS 106-2; EITF 92-12; EITF 92-13; EITF 93-03; EITF 96-05; EITF 06-04; EITF 06-10
715-70	Defined Contribution Plans		FAS 106; FAS 132(R); EITF 86-27
715-80	Multiemployer Plans	2011-09	FAS 87; FAS 106; FAS 132(R); EITF 90-03
718 – Compensation-Stock Compensation			
718-10	Overall	2016-09; 2017-12; 2018-07	FAS 5; FAS 123(R); FAS 128; FSP FAS 123(R)-1; FSP FAS 123(R)-2; FSP FAS 123(R)-4; EITF 96-05; EITF 97-02; EITF 00-12; EITF 00-16; EITF 07-05
718-20	Awards Classified as Equity	2017-09; 2018-07	FAS 123(R)
718-30	Awards Classified as Liabilities	2018-07	FAS 123(R)
718-40	Employee Stock Ownership Plans		SOP 93-6; EITF 90-04
718-50	Employee Share Purchase Plans	2018-07	FAS 123(R); TB 97-01
718-740	Income Taxes	2016-09; 2018-07; 2018-09	FAS 109; FAS 123(R); SOP 93-6; EITF 06-11
720 – Other Expenses			
720-15	Start-Up Costs	2014-09	SOP 98-5
720-20	Insurance Costs		FAS 5; AAG-HCO; EITF 93-14; EITF 03-08
720-25	Contributions Made	2018-08	FAS 116
720-30	Real and Personal Property Taxes		ARB 43
720-35	Advertising Costs	2016-20; 2018-09	SOP 93-7
720-40	Electronic Equipment Waste Obligations		FSP FAS 143-1
720-45	Business and Technology Reengineering		EITF 97-13
720-50	Fees Paid to the Federal Government by Pharmaceutical Manufacturers and Health Insurers	2010-27; 2011-06	

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730 – Research and Development			
730-10	Overall		FAS 2; FAS 86; FIN 06; SOP 97-2; SOP 98-1; EITF 99-05; EITF 07-03
730-20	Research and Development Arrangements	2014-09	FAS 2; FAS 5; FAS 68; SOP 97-2; EITF 07-03
740 – Income Taxes			
740-10	Overall	2009-06; 2010-12; 2013-11; 2014-09; 2015-17; 2016-01; 2016-16; 2017-15; 2018-02; 2018-05; 2018-09	FAS 37; FAS 109; FAS 116; FAS 16[illegible]; FIN [illegible]0; FIN 48; APB 2[illegible]; APB 4; APB 10; APB 18; APB 21; FSP FAS 106-2; FSP FAS 109-1; FSP FIN 48-1; SOP 94-6; EITF 87-08; EITF 88-04; EITF 91-08; EITF 93-13; EITF 94-10; EITF 95-09; EITF 95-10; EITF 95-20; EITF 98-11; EITF 05-08
740-20	Intraperiod Tax Allocation		FAS 109; EITF 94-10
740-30	Other Considerations or Special Areas	2014-06	FAS 109; APB 23; EITF 93-16; EITF 93-17
740-270	Interim Reporting	2016-09	FAS 109; FAS 144; FIN 18; APB 28; TB 79-09
805 – Business Combinations			
805-10	Overall	2010-02; 2010-29; 2013-05; 2014-17; 2015-16; 2017-01	FAS 141(R); FAS 164; FSP FAS 141(R)-1; EITF 98-04
805-20	Identifiable Assets and Liabilities, and Any Noncontrolling Interest	2011-04; 2012-06; 2014-09; 2014-18; 2015-16; 2016-02; 2016-03; 2016-13	FAS 5; FAS 13; FAS 87; FAS 106; FAS 141(R); FSP FAS 141(R)-1; EITF 96-05; EITF 05-06
805-30	Goodwill or Gain from Bargain Purchase, Including Consideration Transferred	2016-09; 2018-07	FAS 141(R); FAS 142; FSP FAS 141(R)-1
805-40	Reverse Acquisitions		FAS 141(R)
805-50	Related Issues	2010-08; 2014-17; 2015-08; 2017-05	FAS 141(R); FAS 164; EITF 85-21; EITF 86-09; EITF 87-21
805-740	Income Taxes	2016-09; 2018-07; 2018-09	FAS 109; FAS 141(R); FIN 48; EITF 86-09
808 – Collaborative Arrangements			
808-10	Overall	2018-18	
810 – Consolidation			
810-10	Overall	2010-02; 2010-10; 2010-22; 2011-10; 2013-05; 2013-08; 2014-07; 2014-09; 2014-10; 2014-13; 2015-02; 2016-03; 2016-13; 2016-14; 2016-17; 2018-04; 2018-17	FAS 94; FAS 167; FIN 46(R); APB 18; ARB 51; FSP FAS 140-4/FIN 46(R)-8; FSP FIN 46(R)-1; FSP FIN 46(R)-2; FSP FIN 46(R)-3; FSP FIN 46(R)-5; FSP FIN 46(R)-6; EITF 84-04; EITF 85-12; EITF 86-32; EITF 88-14; EITF 88-15; EITF 96-16;

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			EITF 97-02; EITF 97-14; EITF 00-01; EITF 01-02; EITF 04-05; EITF 06-09; EITF 08-08; PB 01; PB 02; AIN APB 18
810-20	Control of Partnerships and Similar Entities		EITF 04-05
810-30	Research and Development Arrangements	2015-02	EITF 99-16
815 – Derivatives and Hedging			
815-10	Overall	2010-11; 2013-01; 2014-03; 2014-09; 2015-12 (Part I); 2015-13; 2016-01; 2016-03; ASU 2016-11; 2016-13; 2016-14; 2016-20; 2017-11; 2017-12; 2018-03; 2018-07; 2018-09; 2018-12; 2018-16	FAS 95; FAS 123(R); FAS 133; FAS 138; FAS 149; FAS 157; FAS 161; FIN 39; FSP FAS 129-1; FSP EITF 00-19-2; EITF 84-20; EITF 86-25; EITF 96-11; EITF 99-08; EITF 00-06; EITF 00-19; EITF 01-08; EITF 01-12; EITF 02-03; EITF 02-08; EITF 03-11; EITF 08-08
815-15	Embedded Derivatives	2010-11; 2014-16; 2016-01; 2016-05; 2016-13; 2018-03; 2018-09; 2018-12	FAS 107; FAS 133; FAS 155; FSP APB 14-1; EITF 84-04; EITF 86-21; EITF 00-19; EITF 06-07; PB 01
815-20	Hedging—General	2013-10; 2014-03; 2016-03; 2016-05; 2017-12; 2018-16	FAS 52; FAS 95; FAS 133; FAS 138; FAS 140
815-25	Fair Value Hedges	2016-05; 2016-13; 2017-12; 2018-16	FAS 133; FAS 138; EITF 99-09
815-30	Cash Flow Hedges	2010-08; 2016-05; 2016-13; 2017-12; 2018-16	FAS 133; FAS 138; EITF 99-09; EITF 00-09
815-35	Net Investment Hedges	2017-12	FAS 133
815-40	Contracts in Entity's Own Equity	2017-11; 2018-07	FSP EITF 00-19-2; EITF 00-19; EITF 05-02; EITF 07-05; EITF 08-08
815-45	Weather Derivatives		EITF 99-02
820 – Fair Value Measurements and Disclosures			
820-10	Overall	2009-05; 2009-12; 2010-06; 2011-04; 2013-08; 2013-09; 2014-09; 2014-13; 2015-07; 2015-10; 2016-13; 2016-19; 2018-07; 2018-09; 2018-13	FAS 157; EITF 08-05
825 – Financial Instruments			
825-10	Overall	2009-05; 2011-04; 2013-03; 2014-03; 2015-12 (Part I); 2016-01; 2016-04; 2016-13; 2016-14; 2018-03; 2018-09	FAS 107; FAS 126; FAS 159; FSP APB 14-1; FSP SOP 94-6-1; SOP 01-6; EITF 08-05
825-20	Registration Payment Arrangements		FSP EITF 00-19-2
830 – Foreign Currency Matters			
830-10	Overall	2015-11	FAS 52; APB 30; EITF 92-04
830-20	Foreign Currency Transactions	2018-03	FAS 52; FAS 109; EITF 87-12; EITF 96-15

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830-30	Translation of Financial Statements	2010-19; 2013-05; 2016-13	FAS 52; FIN 37; EITF 01-05
830-230	Statement of Cash Flows	2016-18	FAS 95
830-740	Income Taxes		FAS 109; EITF 92-08; EITF 93-09; EITF 93-16
835 – Interest			
835-10	Overall	2016-01; 2016-13	FAS 116; FAS 150; FIN 48; SOP 0[illegible] SOP 98-7; EITF 8[illegible]-17; [illegible]TF 86-15; EITF 9[illegible]12; EITF 99-20
835-20	Capitalization of Interest		F[illegible]S 3[illegible] FA[illegible]42; FAS 58; F[illegible]S 62; [illegible]AS 87; FAS 143; [illegible]AS [illegible]54; SOP 97-1
835-30	Imputation of Interest	2014-09; 2015-03; 2015-1[illegible]	A[illegible]B 12; APB 21; SOP 01-6
840 – Leases			
840	ASC Topic 840 was superseded by Topic 842, as detailed in ASU 2016-02		
842 – Leases			
842-10	Overall	2016-02; 2017-03; 2017-1[illegible] 2018-01; 2018-[illegible]; 2018-11; 2018-2[illegible]	
842-20	Lessee	2016-[illegible]2; 2018-[illegible]	
842-30	Lessor	2016-02; [illegible]016-13; 2018-10; [illegible]18-11; 2018-20	
842-40	Sale and Leaseback Transactions	2016-02; 2018-10	
842-50	Leveraged Lease Arrangements	2016-02; 2016-13	
842-974	Real Estate Investment Trust	2016-02	
845 – Nonmonetary Transactions			
845-10	Overall	2016-02; 2014-09; 2017-05; 2018-07	APB 29; EITF 93-11; EITF 98-04; EITF 00-08; EITF 01-02; EITF 04-13
850 – Related Party Disclosures			
850-10	Overall		FAS 45; FAS 57; FIN 45; APB 18; APB 26; ARB 43; ARB 51; EITF 85-01; PB 14
852 – Reorganizations			
852-10	Overall	2012-04	SOP 90-7; EITF 88-25
852-20	Quasi-Reorganizations		ARB 43; SOP 90-7
852-740	Income Taxes		FAS 109; SOP 90-7
853 – Service Concession Arrangements			
853-10	Overall	2014-05; 2017-10	
855 – Subsequent Events			
855-10	Overall	2010-09; 2016-13	FAS 144; FAS 165; SOP 00-2
860 – Transfers and Servicing			
860-10	Overall	2011-03; 2014-11; 2015-10; 2016-02; 2017-05	FAS 5; FAS 57; FAS 91; FAS 140; FAS 159; FAS 166; FIN 46(R); ARB 51; TB 01-01; FSP FAS 140-3; SOP 90-3; SOP 04-2; EITF 84-20; EITF 86-08; EITF 87-30; EITF 88-22; EITF 90-21; EITF 97-03; EITF 99-08

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860-20	Sales of Financial Assets	2014-11; 2016-13; 2016-19	FAS 95; FAS 115; FAS 140; FSP FAS 140-1; SOP 01-6; EITF 84-05; EITF 85-25; EITF 88-22; EITF 02-09
860-30	Secured Borrowing and Collateral	2013-01; 2014-11	FAS 140; FIN 41
860-50	Servicing Assets and Liabilities		FAS 65; FAS 140; FAS 156; TB 87-[illegible]; SOP 01-6; EITF 8[illegible]-13; [illegible]TF 87-34; EITF 9[illegible]21; EITF 95-05; EITF [illegible]02-09
912 – Contractors–Federal Government			
912-10	Overall		[illegible]ARB 43
912-20	Contract Costs		ARB 43; SOP 81-1
912-210	Balance Sheet		ARB 43
912-225	Income Statement		ARB 43
912-275	Risks and Uncertainties		FAS 146; ARB 43
912-310	Receivables	2014-09	ARB 43
912-330	Inventory		ARB 43
912-405	Liabilities		ARB 43
912-605	Revenue Recognition		ARB 43
912-835	Interest	[illegible]014-09	
915 – Development Stage Entities			
915-10	Overall	[illegible]014-10	FAS 07; FIN 07
915-205	Presentation of Financial Statements		FAS 07
915-210	Balance Sheet		FAS 07
915-215	Statement of Shareholders' Equity		FAS 07
915-225	Income Statement		FAS 07
915-230	Statement of Cash Flows		FAS 07
915-235	Notes to Financial Statements		FAS 07
915-340	Other Assets and Deferred Costs		FAS 07
915-605	Revenue Recognition		FAS 07
915-810	Consolidation		FAS 07; FIN 07
924 – Entertainment–Casinos			
924-10	Overall	2016-20	
924-815	Derivatives and Hedging	2016-20	
932 – Extractive Activities–Oil and Gas			
932-10	Overall	2009-11; 2010-03; 2010-14; 2010-22; 2016-11	FAS 19; EITF 90-22
932-235	Notes to Financial Statements	2010-03; 2014-09	FAS 19; FAS 69
932-270	Interim Reporting		FAS 19
932-[illegible]30	Inventory		EITF 02-03
932-350	Intangibles—Goodwill and Other		FSP FAS 142-2
932-360	Property, Plant, and Equipment	2012-04	FAS 19; FIN 36; FSP FAS 19-1
932-470	Debt		FAS 19
932-720	Other Expenses		FAS 19
932-740	Income Taxes		FAS 19
932-810	Consolidation		EITF 00-01
932-815	Derivatives and Hedging		EITF 90-22
932-835	Interest	2014-09	FIN 33; AIN-APB21

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GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
940 – Financial Services–Broker and Dealers			
940-210	Balance Sheet	2018-09	
940-325	Investments—Other		EITF 02-03
940-405	Liabilities	2018-09	
942 – Financial Services–Depository and Lending			
942-10	Overall		SOP 01-6; EITF 88-19
942-210	Balance Sheet	2010-21; 2018-09	SOP 01-6
942-225	Income Statement	2010-21	
942-230	Statement of Cash Flows	2016-13	FAS [illegible]
942-305	Cash and Cash Equivalents		[illegible] 01-6
942-310	Receivables	2016-13	SOP [illegible]-6; PB 4; PB 5
942-320	Investments—Debt and Equity Securities	2016-01	FAS [illegible]5; SOP 01-6
942-325	Investments—Other	2016-01	SOP 01-6
942-360	Property, Plant, and Equipment		SOP 01-6
942-405	Liabilities		SOP 01-6; EITF 89-03
942-470	Debt	2016-01	FAS 107; SOP 01-6
942-505	Equity	2018-0[illegible]	SOP 01-6
942-740	Income Taxes	2018-[illegible]	FAS 109; APB 23; EITF 85-31
942-810	Consolidation		EITF 88-25
942-825	Financial Instruments	2016-01; 2016-20	SOP 01-6; EITF 85-20
944 – Financial Services–Insurance			
944-10	Overall	2010-21; 2016-01	FAS 60; SOP 94-5
944-20	Insurance Activities	2010-13; 2016-19; 2018-12	FAS 5; FAS 60; FAS 97; FAS 113; FAS 120; FAS 163; SOP 94-5; SOP 95-1; SOP 03-1; EITF 92-09; EITF 93-06; EITF 93-14; PB 8
944-30	Acquisition Costs	2010-26; 2014-09; 2015-10; 2018-09; 2018-12	FAS 60; FAS 97; FAS 113; SOP 93-7; SOP 95-1; SOP 03-1; SOP 05-1; PB 8
944-40	Claim Costs and Liabilities for Future Policy Benefits	2012-04; 2015-09; 2018-12	FAS 5; FAS 60; FAS 97; FAS 113; FAS 163; SOP 94-5; SOP 95-1; SOP 03-1
944-50	Policyholder Dividends	2018-12	FAS 60; SOP 95-1; AAG LHI
944-60	Premium Deficiency and Loss Recognition	2018-12	FAS 5; FAS 60; FAS 97; PB 8
944-80	Separate Accounts	2010-15; 2016-01; 2016-13; 2018-12	FAS 60; SOP 03-1
944-210	Balance Sheet	2010-21	FAS 113
944-225	Income Statement	2010-21	
944-310	Receivables	2016-13; 2016-19; 2018-09	FAS 60; FAS 113; FAS 163; AAG PLI
944-[illegible]	Investments—Debt and Equity Securities	2012-04; 2016-01	SOP 01-06; SOP 03-01
944-325	Investments—Other	2015-10; 2016-01	FAS 60
944-340	Other Assets and Deferred Costs		FAS 113
944-360	Property, Plant, and Equipment	2016-01; 2018-09	FAS 60
944-405	Liabilities		FAS 113
944-470	Debt	2015-10	PB 15
944-505	Equity		FAS 60; SOP 94-5

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GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
944-605	Revenue Recognition	2016-01; 2018-12	FAS 60; FAS 97; FAS 113; FAS 163; FSP FAS 97-1; SOP 92-5; SOP 95-1; SOP 03-1; PB 8
944-720	Other Expenses	2010-26	AAG LHI
944-740	Income Taxes		FAS 60; FAS 109; AAG LHI
944-805	Business Combinations	2018-12	FAS 60; SOP 00-3
944-815	Derivatives and Hedging	2018-12	
944-825	Financial Instruments	2016-01; 2018-12	FAS 9[illegible]; FAS [illegible]13; PB 8
946 – Financial Services–Investment Companies			
946-10	Overall	2013-08	SOP 07-1
946-20	Investment Company Activities	2013-08	SOP 9[illegible]-2; SOP 95-3
946-205	Presentation of Financial Statements		FSP AAG INV-1 and SOP 94-1-1
946-210	Balance Sheet	2016-19	FSP AAG INV-1 and SOP 94-4-1; SOP 95-2
946-225	Income Statement		SOP 95-2
946-320	Investments—Debt and Equity Securities	2013-08; 201[illegible]	SOP 93-1
946-323	Investments—Equity Method and Joint Ventures	2013-08	SOP 07-1
946-325	Investments—Other	2013-08	
946-605	Revenue Recognition		FSP EITF85-24-1; EITF 85-24
946-720	Other Expenses	2014-09; 2016-20	EITF 85-24
946-740	Income Taxes		FAS 109
946-810	Consolidation	2013-08	SOP 07-1
946-830	Foreign Currency Matters		SOP 93-4
950 – Financial Services–Title Plant			
950-350	Intangibles—Goodwill and Other	2014-09	FAS 61
954 – Health Care Entities			
954-10	Overall	2013-06; 2016-01; 2018-08	AAG HCO
954-205	Presentation of Financial Statements	2016-14; 2018-08	AAG HCO
954-210	Balance Sheet	2016-14	AAG HCO
954-220	Income Statement—Reporting Comprehensive Income	2016-19; 2017-12; 2018-08	
954-225	Income Statement	2013-06; 2016-01; 2016-13	FAS 117; AAG HCO
954-280	Segment Reporting		TB 79-05
954-305	Cash and Cash Equivalents	2016-14	AAG HCO
954-310	Receivables	2011-07; 2014-09; 2016-13	AAG HCO
954-320	Investments—Debt and Equity Securities	2012-04; 2016-01; 2016-14	FAS 124; AAG HCO
954-[illegible]	Investments—Other		AAG HCO
954-340	Other Assets and Deferred Costs		AAG HCO
954-360	Property, Plant, and Equipment		AAG HCO
954-405	Liabilities		AAG HCO
954-430	Deferred Revenue	2012-01	AAG HCO
954-440	Commitments	2018-08	AAG HCO
954-450	Contingencies	2010-24	AAG HCO
954-460	Guarantees		FSP FIN 45-3
954-470	Debt	2018-08	AAG HCO
954-605	Revenue Recognition	2010-23; 2011-07; 2012-04; 2014-09; 2018-08	AAG HCO

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GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
954-720	Other Expenses	2010-24	AAG HCO; EITF 03-08
954-740	Income Taxes		AAG HCO
954-805	Business Combinations	2012-04; 2016-01; 2016-14	FAS 164; AAG HCO
954-810	Consolidation	2015-02; 2016-19; 2017-02	FAS 164; FIN 46(R); SOP 94-3; EITF 97-02; AAG HCO
954-815	Derivatives and Hedging	2012-04; 2017-12	SOP 02-2
954-825	Financial Instruments		[illegible] 159
958 – Not-For-Profit Entities			
958-10	Overall	2015-10; 2016-01; 2016-14; 2018-08	FAS [illegible]; FAS 116
958-20	Financially Interrelated Entities	2016-14; 2018-08	F[illegible]S 57; [illegible]AS 136; APB 18
958-30	Split-Interest Agreements	2016-01; 2016-14; 2018-08; 2018-13	[illegible]AS [illegible]; FAS 117; FAS 136
958-205	Presentation of Financial Statements	2015-01; 2015-10; 2016-[illegible]; 2016-18; 2018-08	[illegible]AS 116; FAS 117; FAS 124; FAS 136; FSP FAS 117-1; SOP 94-6
958-210	Balance Sheet	2014-06; 2016-01; [illegible]16-[illegible]	FAS 117; ARB 43
958-220	Income Statement—Reporting Comprehensive Income	2017-07; [illegible]18-08	
958-225	Income Statement	2016-[illegible]1; [illegible]016-[illegible]	FAS 116; FAS 117; FAS 136; FAS 144; FAS 146
958-230	Statement of Cash Flows	2012-[illegible]; 201[illegible]10; 2016-18; [illegible]018-08	FAS 117
958-310	Receivables	[illegible]016-[illegible]; 2018-08; 2018-13	FAS 116
958-320	Investments—Debt and Equity Securities	[illegible]012-04; 2015-10; 2016-01; [illegible]016-13; 2018-08	FAS 65; FAS 107; FAS 116; FAS 117; FAS 124
958-325	Investments—Other	201[illegible]-04; 2015-10; 2016-01; 2016-13; 2018-08	FAS 116; FAS 124; FSP FAS 115-1/124-1
958-360	Property, Plant, and Equipment	2016-14; 2018-08	FAS 93; FAS 116; FAS 144
958-405	Liabilities	2018-08	
958-450	Contingencies	2018-08	FAS 5; FAS 116
958-605	Revenue Recognition	2013-06; 2014-09; 2015-10; 2016-01; 2016-14; 2016-19; 2018-08	FAS 57; FAS 116; FAS 136; SOP 94-6
958-715	Compensation—Retirement Benefits	2016-14; 2017-07; 2018-08; 2018-14	FAS 87; FAS 88; FAS 106; FAS 132(R); FAS 158
958-720	Other Expenses	2012-04; 2013-06; 2016-14; 2018-08; 2018-09	FAS 93; FAS 109; FAS 117; SOP 93-7; SOP 98-2
958-805	Business Combinations	2010-29; 2015-10; 2016-14; 2016-15; 2018-08	FAS 116; FAS 141R; FAS 164; FIN 21
958-810	Consolidation	2012-04; 2015-10; 2016-01; 2016-14; 2016-19; 2017-02; 2018-08	FAS 13; FAS 57; FAS 164; FIN 46(R); APB 18; ARB 51; FSP SOP 94-3-1 and AAG HCO-1; SOP 94-3; EITF 90-15; EITF 96-21
958-840	Leases		SOP 94-3; EITF 90-15; EITF 96-21; EITF 97-01
960 – Plan Accounting–Defined Benefit Pension Plans			
960-10	Overall		FAS 35; FAS 87
960-20	Accumulated Plan Benefits		FAS 35; SOP 99-2

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GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
960-30	Net Assets Available for Plan Benefits	2015-12 (Part II)	FAS 35; SOP 99-2
960-40	Terminating Plans	2013-07	
960-205	Presentation of Financial Statements	2015-12 (Part II); 2017-06	FAS 35 FAS 102 SOP 99-2
960-310	Receivables		FAS 35
960-325	Investments—Other	2015-12 (Part II & III); 2017-06	FAS 35; [illegible]110; FAS 133
960-360	Property, Plant, and Equipment		[illegible]AS 35
962 – Plan Accounting–Defined Contribution Pension Plans			
962-10	Overall	2015-12 (Part I-III); 2017-06	F[illegible]S 35; F[illegible]AS 87; SOP 94-4; [illegible]OP 99-3
962-40	Terminating Plans	2013-07	
962-205	Presentation of Financial Statements	2015-12 (Part I-II); 2017-06; 2018-09	[illegible]FAS 102; SOP 94-4
962-310	Receivables	2010-25	
962-325	Investments—Other	2010-25; 2012-04; [illegible]15-12 (Part I-III); 201[illegible]6, 201[illegible]-09	SOP 92-6; SOP 94-4; SOP 99-3
962-360	Property, Plant, and Equipment	2018-09	
965 – Plan Accounting–Health and Welfare Benefit Plans			
965-10	Overall		FAS 35; FAS 87; SOP 92-6; SOP 99-2
965-20	Net Assets Available for Plan Benefits	2015-12 (Part I-II)	SOP 92-6
965-30	Plan Benefit Obligations	2016-19	SOP 92-6
965-40	Terminating Plans	2013-07	SOP 92-6
965-205	Presentation of Financial Statements	2012-04; 2015-12 (Part II); 2017-06	FAS 130; SOP 92-6; SOP 99-2
965-310	Receivables		SOP 92-6
965-320	Investments—Debt and Equity Securities		SOP 92-6
965-325	Investments—Other	2012-04; 2015-12 (Part I-II); 2017-06	SOP 92-6; SOP 94-4; SOP 99-3
965-360	Property, Plant, and Equipment		SOP 92-6
970 – Real Estate–General			
970-10	Overall		FAS 67
970-230	Statement of Cash Flows		FAS 102
970-323	Investments—Equity Method and Joint Ventures	2014-09; 2015-02; 2016-01; 2017-05	SOP 78-9; SOP 92-1
970-340	Other Assets and Deferred Costs	2014-09; 2016-02	FAS 67; EITF 97-11
970-360	Property, Plant, and Equipment	2014-09	FAS 67; EITF 85-27; EITF 86-07
970-[illegible]	Debt		EITF 91-10
970-605	Revenue Recognition		FAS 67; SOP 78-9; SOP 92-1
970-720	Other Expenses		FAS 67; EITF 97-11
970-810	Consolidation	2015-02	APB 18; ARB 51; FSP SOP 78-9-1; SOP 78-9
970-835	Interest		SOP 78-9
976 – Real Estate–Retail Land			
976-10	Overall		FAS 66
976-310	Receivables		FAS 66
976-330	Inventory		FAS 66
976-605	Revenue Recognition		FAS 66

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GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
976-705	Cost of Sales and Services	2014-09	FAS 66
980 – Regulated Operations			
980-10	Overall	2018-04	FAS 7; FAS 71
980-20	Discontinuation of Rate-Regulated Accounting	2015-01	FAS 101; EITF 97-04
980-250	Accounting Changes and Error Corrections		FAS 71
980-340	Other Assets and Deferred Costs	2016-02	FAS 71; FAS 92; EITF 93-04
980-350	Intangibles—Goodwill and Other		FAS 71; EITF 96-17
980-360	Property, Plant, and Equipment		FAS 90; TB 87-02
980-405	Liabilities		FAS 71
980-410	Asset Retirement and Environmental Obligations		FAS 71; FAS 143
980-450	Contingencies		FAS 71
980-470	Debt		FAS 71
980-605	Revenue Recognition	2014-09; 2015-01	FAS 71; EITF 91-06; EITF 92-07; EITF 96-17
980-710	Compensation—General		FAS 71
980-715	Compensation—Retirement Benefits		FAS 87; FAS 106; EITF 92-12; EITF 93-04
980-740	Income Taxes		FAS 109; TB 87-02
980-810	Consolidation	2014-04	FAS 71
980-815	Derivatives and Hedging	2014-09	EITF 91-06
980-835	Interest		FAS 71; FAS 90
980-840	Leases		FAS 13; FAS 71; FAS 98
985 –Software			
985-10	Overall	2014-09	
985-20	Costs of Software to Be Sold, Leased, or Marketed	2014-09; 2018-15	FAS 2; FAS 86; FIN 6; SOP 94-6; SOP 97-2; SOP 98-1; EITF 00-03
985-330	Inventory		FAS 86
985-605	Revenue Recognition	2009-14; 2014-09; 2018-15	FAS 86; SOP 97-2; EITF 00-03; EITF 03-05
985-705	Cost of Sales and Services		FAS 86; EITF 96-06

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Appendix E
Statutory Issue Papers

Introduction

Issue papers are used as the first step in developing new or revised SSAPs, and each contains a recommended conclusion, discussion and relevant literature section. While issue papers do not constitute an authoritative level of statutory accounting guidance as defined by the statutory hierarchy, they are an important part of the *Accounting Practices and Procedures Manual* (Manual) because they reference the history and discussion of the related SSAP.

Issue papers are published in the Manual within Appendix E the first year after adoption of the related SSAP, but are then removed from the subsequent year's Manual and posted for public reference on the Statutory Accounting Principles (E) Working Group (SAPWG) web page at *www.naic.org/cmte_e_app_sapwg.htm*.

Issue Papers Associated with SSAPs Adopted in 2018

IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
158	Unaffiliated Common Stock	30	30R
159	Special Accounting Treatment for Limited Derivatives	108	108

Issue Papers Associated with SSAPs Adopted Prior to 2018
(Posted for public reference on the SAPWG web page)

IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
1	Consolidation of Majority-Owned Subsidiaries	3	3 and 97
2	Definition of Cash	2	2R
3	Accounting Changes	3	3
4	Definition of Assets and Nonadmitted Assets	4	4
5	Definition of Liabilities, Loss Contingencies and Impairments of Assets	5	5R
6	Amounts Due From Agents and Brokers	6	6
7	Asset Valuation Reserve and Interest Maintenance Reserve	7	7
8	Accounting for Pensions	8	102
9	Subsequent Events	9	9
10	Uncollected Premium Balances	6	6
11	Compensated Absences	11	11
12	Accounting for Drafts Issued and Outstanding	2	2R
13	Employers' Accounting for Postemployment Benefits	11	11
14	Employers' Accounting for Postretirement Benefits Other Than Pensions	14	92
16	Electronic Data Processing Equipment and Software	16	16R
17	Preoperating and Research and Development Costs	17	17
19	Furniture, Fixtures and Equipment	19	19
20	Gain Contingencies	5	5R

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IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
21	Bills Receivable For Premiums	6	6
22	Leases	22	22
23	Property Occupied by the Company	40	40R
24	Discontinued Operations and Extraordinary Items	24	24
25	Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties	25	25
26	Bonds, Excluding Loan-Backed and Structured Securities	26	26R
27	Disclosure of Information about Financial Instruments with Concentration of Credit Risk	27	27
28	Short-Term Investments	2	2R
29	Prepaid Expenses (excluding deferred policy acquisition costs and other underwriting expenses, income taxes and guaranty fund assessments)	29	29
30	Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated entities)	30	30R
31	Leasehold Improvements Paid by the Reporting Entity as Lessee	19	19
32	Investments in Preferred Stock (excluding investments in preferred stock of subsidiary, controlled, or affiliated entities)	32	32
33	Disclosures about Fair Value of Financial Instruments	27	27
34	Investment Income Due and Accrued	34	34
35	Accounting for Guaranty Fund and Other Assessments	35	35R
36	Troubled Debt Restructurings	36	36
37	Mortgage Loans	37	37
38	Acquisition, Development and Construction Arrangements	38	38
39	Reverse Mortgages	39	39
40	Real Estate Investments	40	40R
41	Surplus Notes	41	41R
42	Sale of Premium Receivables	42	42
43	Loan-Backed and Structured Securities	43	43R
44	Capitalization of Interest	44	44
45	Repurchase Agreements, Reverse Repurchase Agreements and Dollar Repurchase Agreements	45	103R
46	Accounting for Investments in Subsidiary, Controlled and Affiliated Entities	46	97
47	Pension Plans	47	47
48	Investments in Joint Ventures, Partnerships and Limited Liability Companies	48	48
49	Policy Loans	49	49
50	Classifications and Definitions of Insurance or Managed Care Contracts in Force	50	50
51	Life Contracts	51	51R
52	Deposit-Type Contracts	52	52
53	Property Casualty Contracts–Premiums	53	53
54	Individual and Group Accident and Health Contracts	54	54R

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IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
55	Unpaid Claims, Losses and Loss Adjustment Expenses	55	55
56	Universal Life-Type Contracts, Policyholder Dividends, and Coupons	51	51R
57	Title Insurance	57	57
59	Credit Life and Accident and Health Insurance Contracts	59	59
65	Property and Casualty Contracts	65	65
66	Accounting for Retrospectively Rated Contracts	66	66
67	Depreciation of Property and Amortization of Leasehold Improvements	19	19
68	Business Combinations and Goodwill	68	68
69	Financial Guaranty Insurance	60	60
71	Policy Acquisition Costs and Commissions	71	71
72	Statutory Surplus	72	72
73	Nonmonetary Transactions	28	95
74	Life, Deposit-Type and Accident and Health Reinsurance	61	61R
75	Property and Casualty Reinsurance	62	62R
76	Offsetting and Netting of Assets and Liabilities	64	64
77	Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures	1	1
78	Employee Stock Ownership Plans	12	12
80	Debt	15	15
81	Foreign Currency Transactions and Translations	23	23
82	Stock Options and Stock Purchase Plans	13	104R
83	Accounting for Income Taxes	10	101
84	Quasi-Reorganizations	72	72
85	Derivative Instruments	27 and 86	27 and 86
86	Securitization	33	103R
87	Other Admitted Assets	21	21R
88	Mortgage Guaranty Insurance	58	58
89	Separate Accounts	56	56
90	Nonadmitted Assets	20	20
92	Statement of Cash Flow	69	69
94	Allocation of Expenses	70	70
95	Holding Company Obligations	15	15
96	Other Liabilities	67	67
97	Underwriting Pools and Associations Including Intercompany Pools	63	63
99	Nonapplicable GAAP Pronouncements	Refer to Appendix D – Nonapplicable GAAP Pronouncements	
100	Health Care Delivery Assets—Supplies, Pharmaceuticals and Surgical Supplies, and Durable Medical Equipment	73	73
101	Health Care Delivery Assets—Furniture, Medical Equipment and Fixtures, and Leasehold Improvements in Health Care Facilities	73	73

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IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
103	Accounting for the Issuance of Insurance-Linked Securities Issued by a Property and Casualty Insurer through a Protected Cell	74	74
104	Reinsurance Deposit Accounting—An Amendment to SSAP No. 62—Property and Casualty Reinsurance	62R	62R
105	Reporting on the Costs of Start-Up Activities	76	76
106	Real Estate Sales—An Amendment to SSAP No. 40—Real Estate Investments	77	40R
107	Certain Health Care Receivables and Receivables Under Government Insured Plans	84	84
108	Multiple Peril Crop Insurance	78	78
109	Depreciation of Nonoperating System Software—An Amendment to SSAP No. 16—Electronic Data Processing Equipment and Software	79	16R
110	Life Contracts, Deposit-Type Contracts and Separate Accounts, Amendments to SSAP No. 51—Life Contracts, SSAP No. 52—Deposit-Type Contracts and SSAP No. 56—Separate Accounts	51, 52 and 56	51R, 52 and 56
111	Software Revenue Recognition	81	16R
112	Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs	82	16R
113	Mezzanine Real Estate Loans	83	83
114	Accounting for Derivative Instruments and Hedging Activities	86	86
116	Claim Adjustment Expenses, Amendments to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses	85	55
118	Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 46	68 and 97	68 and 97
119	Capitalization Policy, An Amendment to SSAP Nos. 4, 19, 29, 73, 79 and 82	87	4, 19, 29 and 73
121	Accounting for the Impairment or Disposal of Real Estate Investments	90	90
122	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	91	103R
123	Accounting for Pensions, A Replacement of SSAP No. 8	89	102
124	Use of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43	43R	43R
125	Accounting for Low Income Housing Tax Credit Property Investments	48 and 93	48 and 93
126	Accounting for Transferable State Tax Credits	94	94R
127	Exchanges of Nonmonetary Assets, A Replacement of SSAP No. 28—Nonmonetary Transactions	90 and 95	90 and 95

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IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
128	Settlement Requirements for Intercompany Transactions, An Amendment to SSAP No.25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties	96	25
129	Share-Based Payment, A Replacement of SSAP No. 13—Stock Options and Stock Purchase Plans	104	104R
131	Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment	99	26R, 32 and 34
132	Accounting for Pensions, A Replacement of SSAP No. 89	102	102
133	Accounting for Postretirement Benefits Other Than Pensions, A Replacement of SSAP No. 14	92	92
134	Servicing Assets/Liabilities, An Amendment of SSAP No. 91	91R	103R
135	Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others	5R	5R
137	Transfer of Property and Casualty Reinsurance Agreements in Run-Off	62R	62R
138	Fair Value Measurements	100	100R
140	Substantive Revisions to SSAP No. 43—Loan-Backed and Structured Securities	43R	43R
141	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	103	103R
143R	Guaranty Fund Assessments	35R	35R
144	Substantive Revisions to SSAP No. 91R: Securities Lending	91R	103R
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Statutory Issue Paper No. 158

Unaffiliated Common Stock

STATUS
Finalized November 15, 2018

Original SSAP: SSAP No. 30; Current Authoritative Guidance: SSAP No. 30R

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. The guidance within this issue paper introduces substantive revisions to *SSAP No. 30—Unaffiliated Common Stock* (SSAP No. 30) pursuant to the Statutory Accounting Principles (E) Working Group's (Working Group) Investment Classification Project. The Investment Classification Project reflects a comprehensive review to address a variety of issues pertaining to definitions, measurement and overall scope of the investment SSAPs.

2. The substantive revisions to SSAP No. 30 (illustrated in Exhibit A) under the Investment Classification Project, detailed within this issue paper, reflect the following key elements:

   a. Improves the common stock definition with identification of the items that technically do not meet the definition, but warrant common stock treatment.

   b. Revises the guidance to include closed-end funds and unit investment trusts within scope.

   c. Suggests reporting enhancements to capture NAIC designations on D-2-2, allowing RBC to be driven from underlying risk of fund holdings (if determined appropriate by Capital Adequacy (E) Task Force).

DISCUSSION

3. This issue paper intends to provide information on discussions that occurred when considering revisions to SSAP No. 30 under the Investment Classification Project, as well as the adopted revisions.

Common Stock Definition

4. The historical definition of common stock within SSAP No. 30 is "securities which represent a residual ownership in a corporation." This definition has been identified as generally consistent with market terms, including the NASDAQ and FASB Codification definitions for common stock:

   a. NASDAQ Definition: Securities that represent equity ownership in a company. Common shares let an investor vote on such matters as the election of directors. They also give the holder a share in a company's profits via dividend payments or the capital appreciation of the security. Units of ownership of a public corporation with junior status to the claims of secured/unsecured creditors, bondholders and preferred shareholders in the event of liquidation.

   b. FASB Codification: A stock that is subordinate to all other stock of the issuer.

5. Although the historical definition of common stock in SSAP No. 30 is comparable to market terms, the actual scope of SSAP No. 30 has historically included investments that are not considered "common

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stocks" but may be captured in the definition of an "equity security." The FASB Codification, reflecting the revisions from *ASU 2016-01, Financial Instruments*, defines an equity security in Topic 320 (Investments: Debt and Equity Securities) as:

> Any security representing an ownership interest in an entity (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, forward purchase contracts, and call options) or dispose of (for example, put options and forward sale contracts) an ownership interest in an entity at fixed or determinable prices. The term equity security does not include any of the following:
>
> i. Written equity options (because they represent obligations of the writer, not investments)
>
> ii. Cash-settled options on equity securities or options on equity-based indexes (because those instruments do not represent ownership interests in an entity)
>
> iii. Convertible debt or preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor.

6. Although the FASB definition of an "equity security" captures some investments that are currently identified within the scope of SSAP No. 30, the FASB "equity security" definition also captures investments that are not captured within SSAP No. 30, and are addressed within other SSAPs.

7. Consistent with comments received from interested parties, this issue paper recommends revisions to SSAP No. 30 to align the scope format to be consistent with the structure of *SSAP No. 26R—Bonds*. With this approach, securities that do not meet the common stock definition, but that have been identified to be captured within the scope of SSAP No. 30 will be specifically identified and reflected as examples of "common stock."

Scope of SSAP No. 30 – Closed-End Funds and Unit Investment Trusts

8. The key substantive revision detailed within this issue paper is the expansion of SSAP No. 30 to include SEC registered Investment Companies. This revision expands the previous inclusion of "mutual funds" (SEC registered open-end investment companies) to also include SEC registered closed-end funds and unit investment trusts within scope of SSAP No. 30.

Closed-End Funds / Unit Investment Trusts

9. SSAP No. 30 includes "mutual funds" and "exchange traded funds" within the listing of securities captured in scope, but SSAP No. 30 makes no mention of "closed-end funds" or "unit investment trusts," which are two other types of "investments companies" registered with the SEC. The term "mutual fund" represents an investment in an open-end investment company, and the use of this specific term in SSAP No. 30 results in the exclusion of investments in closed-end investment companies and unit investment trusts.

10. Per the SEC, an "investment company" is a company (corporation, business trust, partnership, or limited liability company) that issues securities and is primarily engaged in the business of investing in securities. An investment company invests the money it receives from investors on a collective basis, and each investor shares in the profits and losses in proportion to the investor's interest in the investment company. The performance of the investment company will be based on (but it won't be identical to) the performance of the securities and other assets that the investment company owns.

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11. The federal securities laws categorize investment companies into three basic types:

- Mutual funds - legally known as open-end companies;
- Closed-end funds (CEF) - legally known as closed-end companies;
- Unit Investment Trusts (UITs) - legally known as unit investment trusts.

12. Key elements of SEC registered investments, divided by type of fund, include:

a. Selling Shares / Secondary Market / Price:

i. *Mutual Fund:* Shares are generally sold on a continuous basis, although some funds will stop selling when they reach a certain level of assets under management. Shares are acquired from the fund itself, or through a broker for the fund. Shares of mutual funds cannot be purchased from other investors on a secondary market, such as the NYSE or NASDAQ. The price that investors pay for mutual fund shares is the fund's approximate net asset value (NAV) per share plus any fees that the fund may charge at purchase, such as sales charges, also known as sales loads.

ii. *Closed-End:* Shares are not continuously available for sale. Rather, a fixed number of shares are sold at one time (initial public offering), after which the shares trade on a secondary market, such as the NYSE or NASDAQ. The price is determined by the market and may be greater or less than the shares' NAV, with a commission paid when purchased and sold. The procedures for buying/selling CEFs are the same for buying/selling stocks and there are no minimums on purchases or sales. Information on market prices of closed-end funds is publicly available, and information on the NAV can be obtained from the issuer and from certain third-party sources / publications.

iii. *Unit Investment Trust:* A UIT typically will make a one-time "public offering" of only a specified fixed number of units (like closed-end funds). Many UIT sponsors, however, will maintain a secondary market, which allows owners of UIT units to sell them back to the sponsors and allows other investors to buy UIT units from the sponsors.

b. Redeemable / Non-Redeemable: (The term redeemable focuses on whether the fund will reacquire the shares from the holder at the investor's request.)

i. *Mutual Fund*: Redeemable - When mutual fund investors want to sell their fund shares, they sell them back to the fund, or to a broker acting for the fund, at the current NAV per share, minus any fees the fund may charge, such as deferred sales loads or redemption fees.

ii. *Closed-End*: Not redeemable - A closed-end fund is not required to buy shares back from investors upon request. However, closed-end funds may offer to repurchase shares at specified intervals (interval funds). As noted above, CEFs are traded on an exchange and can be liquidated at the current market price. (As the holder cannot redeem these investments directly with the fund, this issue paper proposes to require a fair value measurement for CEF, whereas investments that can be redeemed directly with a fund for net asset value (NAV) would be permitted to be reported at NAV.)

iii. *Unit Investment Trust*: Redeemable - Issues redeemable securities (or "units"), like a mutual fund, which means that the UIT will buy back an investor's "units," at the investor's request, at the approximate NAV.

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c. Management / Registration and Liquid / Illiquid Investments

i. *Mutual Funds*: The investment portfolios of mutual funds are typically managed by separate entities (investment advisers) that are registered with the SEC. In addition, mutual funds themselves are registered with the SEC and subject to SEC regulation.

ii. *Closed-End*: Managed by separate entities (investment advisors) that are registered with the SEC. CEFs funds are permitted to invest in a greater amount of "illiquid" securities than are mutual funds. (An illiquid security generally is considered to be a security that cannot be sold within seven days at the approximate price used by the fund in determining NAV.)

iii. *Unit Investment Trust*: A UIT will have a termination date (a date when the UIT will terminate and dissolve) that is established when the UIT is created (although some may terminate more than fifty years after they are created). In the case of a UIT investing in bonds, for example, the termination date may be determined by the maturity date of the bond investments. When a UIT terminates, any remaining investment portfolio securities are sold and the proceeds are paid to the investors. A UIT does not actively trade its investment portfolio. That is, a UIT buys a relatively fixed portfolio of securities (for example, five, ten, or twenty specific stocks or bonds), and holds them with little or no change for the life of the UIT. Because the investment portfolio of a UIT generally is fixed, investors generally know what they are investing in for the duration of their investment. Investors will find the portfolio securities held by the UIT listed in its prospectus. A UIT does not have a board of directors, corporate officers, or an investment adviser to render advice during the life of the trust.

13. Information reviewed from the Closed End Fund Association identified ETFs as very similar to closed-end funds. A key difference noted between closed-end funds and ETFs was that ETFs may be a passive investment vehicle (tracks the performance of an index or benchmark), whereas a closed-end fund is actively managed (investment makes portfolio decisions with the objective of outperforming, not just tracking an index or benchmark).

14. In researching to determine if there was an explicit reason for the prior exclusion of CEFs and UITs from SSAP No. 30, NAIC staff did not find any documented information detailing why "mutual funds" (open-end investment companies) were captured within SSAP No. 30, and the other SEC registered investment companies (CEFs and UITs) were not identified within scope of SSAP No. 30. NAIC staff believes a correlation may have been previously made between "closed-end funds" and "partnerships" captured in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*. In reviewing current documentation regarding CEFs, NAIC staff does not believe that CEFs should be considered similar to non-SEC registered partnerships. Rather, the following characteristics seems to support the inclusion of registered CEF within scope of SSAP No. 30, similar to mutual funds:

a. CEFs are subject to laws and oversight by the SEC and the exchanges where they are listed.

b. CEFs must provide a written prospectus containing complete disclosure about the fund when the shares are initially offered to the public (IPO). Following the IPO, other disclosure documents, including annual and semiannual reports and the proxy statement provide info to the investors.

c. After an IPO, CEFs trade on a stock exchange or over-the-counter market at market prices.

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d. CEFs are designed to reflect "bond CEFs" (representing 61% of the CEF market) or "equity CEFs" (representing 39% of the CEF market).

e. Info on CEFs, including NAV, market price and discounts/premiums are found in stock market tables and on major financial websites.

f. Investment returns are received from share price appreciation/depreciation or distributions. Distributions can occur from ordinary dividends (interest and dividend income from securities in the portfolio), capital gains (profits from selling securities held in the portfolio) and from return of capital. Although the "return of capital" may seem similar to a non-SEC registered partnership structure, for CEFs, this occurs when the fund is acting as a pass-through and one of the underlying holdings has a return of capital. (This was noted when the CEF was holding master limited partnerships and the CEF merely passes this payment to the shareholders.) (MLP are also captured in SSAP No. 30 if trading as common stock.) It was also noted that a CEF may have a managed distribution policy when they "return capital" to maintain a stable regular distribution over the long-term so the fund's distributions are matched to its total return.

15. The proposal in this issue paper to capture CEFs and UITs in scope of SSAP No. 30, is specific to these SEC registered "investment company" structures. This limits the proposal to only investments that are registered under the *Investment Company Act of 1940*. This proposal purposely continues the exclusion of private funds from the scope of SSAP No. 30. Pursuant to the SEC, "private funds" are pooled investment vehicles that are excluded from the definition of investment company under the Investment Company Act by Section 3(c)1 or 3(c)7 of that Act. The term "private fund" generally includes funds commonly known as hedge funds and private equity funds. With the proposal detailed in this issue paper, private fund investments, if held by reporting entities, would continue to be excluded from the scope of SSAP No. 30.

a. Private fund advisors are often required to register with the SEC and are required to comply with applicable provisions of the *Investment Advisors Act of 1940*. (These provisions provide the SEC with information on private funds they manage - including size, leverage, liquidity and types of investors. The "investment advisor" registration is not synonymous with registration of an investment vehicle as an investment company under the *Investment Company Act of 1940.* A private fund advisor that registers with SEC under the *advisors act* would not impact the reporting of private equity / hedge funds managed by the investment advisor. Hence, even if the investment advisor was registered with the SEC, funds issued by the registered investor would continue to be excluded from SSAP No. 30 unless the fund was an SEC registered investment.

Scope of SSAP No. 30 – Nonpublic Stock Warrants

16. Comments received from interested parties noted that SSAP No. 30 should be expanded to include stock warrants on non-public common stock. These comments noted that interested parties have wondered why only publicly traded stock warrants are included in SSAP No. 30.

17. The review of *Issue Paper No. 30—Investments in Common Stock, (excluding investments in common stock of subsidiary, controlled or affiliated entities)* (finalized March 1998), The exclusion of nonpublic stock warrants seems to have been incorporated from historical guidance included in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* when SSAP No. 30 was first adopted. Pursuant to Issue Paper No. 30, paragraph 30*:* (Applicable Excerpts Only)

18. The *Purposes and Procedures Manual of the NAIC Securities Valuation Office* - Section 5 - *Procedures for Valuing Common Stocks and Stock Warrants* contains the following guidance:

(A) Common Stocks of Companies Not Classified as Being Subsidiaries, Controlled or Affiliated, Under Section 5(B).

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(a) Association values for publicly traded common stocks and warrants, including, where permitted by law or regulation of an insurer's state of domicile, shares against which exchange traded call options are outstanding, and where the requirements of Section 5(C)(1) are met, shall be equal to market value at date of statement, excepting that, where permitted by law or regulation of an insurer's state of domicile, shares loaned to others shall be valued at the market value at date of statement if the Acceptable Collateral, as hereinafter defined, is pledged as security for the loan and except as set forth in the following sentence, the Acceptable Collateral pledged as security is, at the inception of the loan, in an amount equal to 102% of the market value of the loaned shares. In event that foreign shares are the subject of the loan and the denomination of the currency of the Acceptable Collateral is other than the denomination of the currency of the loaned foreign shares, the amount of Acceptable Collateral which shall be pledged shall be an amount equal to 105% of the market value of the loaned shares. A decline in value of the Acceptable Collateral or an increase in the value of the loaned shares during the term of the loan shall not result in disqualification from valuation in accordance with the above if, during the term the loan is outstanding, additional Acceptable Collateral is posted any time the amount of Acceptable Collateral declines to 100% of the market value of the loaned shares (or 102% of the market value or the loaned shares if Acceptable Collateral in an amount equal to 105% was required to be posted at the inception of the loan) in an amount equal to the difference between the 102% or 105% initially required to be posted and 100% or 102%, respectively. For purpose of this provision, Acceptable Collateral shall mean cash and cash equivalents and shall include securities issued by the U.S. Government or its agencies. Any shortfall in the amount of the actual Acceptable Collateral posted and the required 102% or 105%, as applicable, shall be deducted from the otherwise determined statement value.

(C) Stock Warrants.

(1) Stock Warrants.

All warrants which are exercisable on the date of the Statement shall be valued at Association Value as defined below whether or not physically attached to any other security (See (D), hereunder, for the valuation of warrants exercisable into securities which are restricted as to transferability.)

(a) For publicly traded warrants (other than exchange traded) the Association Value shall be equal to market value.

(b) The Association Value for a warrant having no public market which is currently exercisable into shares of common stock which have no public market shall be the difference resulting from the subtraction from the analytically determined Association Value of the stock of the exercise price for the warrant.

(c) The Association Value for a warrant having no public market which is currently exercisable into shares of common stock which have a counterpart public market but which are themselves restricted shall be the difference resulting from the subtraction from the value of the common shares as determined under the procedures of Section 5(D) below of the exercise price for the warrant.

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(d) Warrants having no public market and for which the first exercise date is subsequent to the date of the statement shall have no value for statement purposes.

(D) Common Stocks Having a Public Market Which Are Issued Under an Investment Letter or Are Otherwise Restricted as to Transferability.

Restricted common stocks (which for purposes of this section, are defined as restricted shares of an unaffiliated issuer held for a period of less than three years prior to the date of valuation) shall be valued by insurers in their Annual Statements on a basis which they are prepared to justify to the SVO staff. (Restrictions shall be considered to have expired for common stocks held at least three years prior to the date of valuation, and the regular valuation basis shall apply.) Such values shall be reviewed by the SVO staff as to the reasonableness of the valuation basis used. The results of the SVO staff's review will be made available to insurance departments and upon request to insurers holding said restricted common stocks.

Warrants exercisable into such restricted common stocks will be valued on the same special basis.

All restricted common stocks and warrants exercisable into the same should be appropriately noted in the Annual Statement, as required, in Schedule D- Part 2- Section 2.

Market values, where used in the determination of Association Values carried in the SVO manual, are not intended for use in valuing restricted common stocks, warrants as described in this section. Values for such restricted common stocks, warrants will not be carried in the SVO publication.

18. A stock warrant is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed price (exercise price) until the warrant's expiration date. Key characteristics:

a. Warrants are generally long-term, and can have expiration dates that expire several years in the future.

b. When a warrant is exercised, the shares are issued directly by the company at the exercise price. (The warrant holder would turn the warrant into the issuing company with payment for the exercise price and receive the common stock directly from the company.)

c. Whether a warrant is exercised depends on whether the exercise price is less than the current stock price. (For example, if the warrant's exercise price is $20, and the common stock price is only $10, the warrant holder would not choose to exercise the warrant.)

d. A warrant is profitable if the stock price exceeds the cost of the warrant plus the exercise price. (For example, if a warrant cost $2 and the exercise price is $20, the warrant would only be profitable if the common stock shares were trading above $22.)

e. If a warrant is not exercised before the expiration date, perhaps because the stock price was less than the exercise price, then the warrant would expire worthless, and the holder of the warrant would lose any investment to acquire the warrant.

19. NAIC staff believes that publicly-traded stock warrants were permitted as the trading value (fair value) would reflect market expectations of the future value of the warrant. Although a warrant may not be likely to be exercised, if publicly traded, the holder would have a verifiable value, as well as the ability to liquidate the warrant (at the current public trading value) if the holder did not think it would be become profitable before the exercise date.

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20. It is noted there is greater liquidity risk in permitting non-publicly traded stock warrants in scope of SSAP No. 30, as the insurer does not have the same ability to sell the warrant if they do not believe it will become profitable before the exercise date. Furthermore, if the warrant is not publicly traded, the fair value (reporting value) of the warrant would not be clearly known or verifiable. There is also concern with the reporting of assets on the statutory financial statements that may not actually "materialize" into assets available for policyholder claims. As detailed, stock warrants expire worthless if they are not exercised before the expiration date, and unless the warrant's exercise price is less than the current stock price, a stock warrant is not likely to be exercised.

21. Guidance for warrants, other than publicly-traded stock warrants captured in SSAP No. 30, is reflected in *SSAP No. 86—Derivatives*. Warrants meet the definition of a derivative and are defined in SSAP No. 86 as follows:

> "Warrants" are instruments that give the holder the right to purchase an underlying financial instrument at a given price and time or at a series of prices and times outlined in the warrant agreement. Warrants may be issued alone or in connection with the sale of other securities, for example, as part of a merger or recapitalization agreement, or to facilitate divestiture of the securities of another business entity.

22. The following information for stock warrants is currently in the P&P Manual, in Part 5 – Section 1: Pricing of Unaffiliated Investments. This section pertains to SVO Valuation Methodologies and does not impact how an investment is reported (e.g., underlying SSAP or admitted under the AP&P Manual:

> **c) SVO Valuation Methodologies**
>
> (iii) Analytical Determinations of Fair Value
>
> Where a fair value cannot be obtained from a public source, the SVO shall attempt to determine a fair value analytically in accordance with the procedures discussed below.
>
> *(H) Stock Warrants*
>
> The fair value of a warrant convertible into private common stock for the year in which the warrant has been purchased by the reporting insurance company shall be the cost of the warrant to such reporting insurance company.
>
> For any subsequent year, the fair value of a warrant convertible into private common stock shall be the difference between the Association Value of the common stock as determined pursuant to either paragraph (E) or (G) of this section, as applicable, and the exercise price. The result is then discounted for illiquidity.
>
> The fair value for a warrant with no public market, exercisable into shares of common stock that do have a public market, shall be the difference between the value of the common stock and the exercise price of the warrant. In the case of a warrant exercisable into restricted common stock, the fair value shall be the difference between the common stock share price determined pursuant to paragraph (I) below and the exercise price.
>
> Warrants for which the first exercise date is subsequent to the date of the NAIC Financial Statement Blank shall have no value unless a publicly available price can be obtained for NAIC Financial Statement Blank purposes.

23. After considering non-public stock warrants, the Working Group agreed to retain public stock warrants in scope of SSAP No. 30, and include non-public stock warrants in scope of SSAP No. 86. Minor revisions will be captured in SSAP No. 86 to clarify the statutory accounting guidance:

> "Warrants" are instruments that give the holder the right to purchase an underlying financial instrument at a given price and time or at a series of prices and times outlined in the warrant agreement. Warrants may be issued alone or in connection with the sale of other securities, for

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example, as part of a merger or recapitalization agreement, or to facilitate divestiture of the securities of another business entity. Publicly traded stock warrants are captured in scope of SSAP No. 30. All other warrants, including non-publicly traded stock warrants, shall be captured in scope of SSAP No. 86.

Reporting Enhancements for SSAP No. 30 Securities

24. The guidance in this issue paper supports the prior Working Group decisions to not include more equity/fund investments in *SSAP No. 26R—Bonds* (such as mutual funds or exchange-traded funds) beyond what is currently permitted. As detailed in SSAP No. 26R, paragraph 4, only specific SVO-Identified investments are captured within scope of SSAP No. 26R:

> 4. The definition of a bond, per paragraph 3, does not include equity/fund investments, such as mutual funds or exchange-traded funds. However, the following types of SVO-identified investments are provided special statutory accounting treatment and are included within the scope of this statement. These investments shall follow the guidance within this statement, as if they were bonds, unless different treatment is specifically identified in paragraphs 23-29.
>
> a. Exchange traded funds (ETFs), which qualify for bond treatment, as identified in Part Six, Section 2 of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. (SVO-identified ETFs are reported on Schedule D – Part 1.)
>
> b. Bond mutual funds which qualify for the Bond List, as identified in Part Six, Section 2 of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. (SVO-identified bond mutual funds are reported on Schedule D – Part 1.)

25. Although this issue paper does not propose revisions to reclassify additional mutual funds as SSAP No. 26R securities (reported as long-term bonds on Schedule D-1), this issue paper does support the consideration of reporting revisions to permit NAIC designations for mutual funds reported in scope of SSAP No. 30 (on Schedule D-2-2) based on the underlying holdings of the fund. As noted by interested parties, this reporting revision would have the potential to combine sound financial reporting standards with the flexibility for a more risk-sensitive RBC regime further reflective of underlying fund holdings. Although this issue paper supports the inclusion of NAIC designations on D-2-2 for funds, this issue paper does not propose any measurement method revisions, or changes in admittance requirements, for funds captured within scope of SSAP No. 30 based on the reported NAIC designation.

26. Although this issue paper supports the inclusion of NAIC designations on Schedule D-2-2, the Statutory Accounting Principles (E) Working Group does not have the ability to incorporate the reporting and RBC changes. Rather, if the Working Group supports the concept to report NAIC designations on Schedule D-2-2, the changes necessary to incorporate these revisions will need to be considered and adopted by the Blanks (E) Working Group, the Valuation of Securities (E) Task Force and the Capital Adequacy (E) Task Force.

27. During the 2018 Spring National Meeting, the Working Group considered comments from Vanguard requesting that more bond mutual funds be captured in scope of SSAP No. 26R. These comments identified that only bond mutual funds that hold 100% government securities qualify to be on the SVO-Identified Bond Mutual Fund listing, and Vanguard suggested that bond funds with other holdings (non U.S. government) should be considered for inclusion, and allowed in scope of SSAP No. 26R. The Vanguard comments noted that there is inconsistency in reporting by requiring non U.S. government bond fund investments to be in scope SSAP No. 30, and indicated that all investment-grade bond mutual funds should be eligible for bond-like treatment consistent with the current treatment of SVO-Identified Bond ETFs. Vanguard also noted that revising the methodology would not require substantive changes, but that only modest revisions would be needed.

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28. After considering the comments received from Vanguard, the Working Group agreed not to consider expanding the provisions in SSAP No. 26R to allow additional bond mutual funds within scope of that standard. The following was captured in support of this decision:

a. In accordance with prior Working Group comments from the discussion of SSAP No. 26R, equity / fund investments do not fit in SSAP No. 26R. These investments are not bonds and do not represent a creditor relationship whereby there is a fixed scheduled for one or more future payments. The inclusion of the specifically noted SVO-Identified investments are specific exceptions, and there is no current Working Group member support to expand the equity / fund investments in scope of SSAP No. 26R.

b. The long-term bond schedule (Schedule D-1) is not conducive to the reporting of funds, and questions often arise on the proper completion of Schedule D-1 for the SVO-Identified ETFs and Bond Mutual Funds captured in SSAP No. 26R and reported on that schedule. (For example, several columns on Schedule D-1 are not applicable for funds – e.g., interest rate, par value, maturity date, etc.) If there was a desire for mutual funds to be reported similarly to SVO-Identified ETFs, rather than expanding the listing of funds permitted to be reported on Schedule D-1, further exacerbating these reporting issues, it would be recommended that all funds (including the SVO-Identified ETFs and Bond Mutual Funds captured in SSAP No. 26R) be captured within SSAP No. 30. (ETFs not on the SVO-Listing are already captured in SSAP No. 30.) If this approach was taken, it would allow similar investments to be reported on the same schedule and would eliminate the reporting issues. If consideration was to be given to this approach, revisions could be incorporated to move the specific measurement value permitted for the SVO-Identified funds (systematic value) from SSAP No. 26R to SSAP No. 30. With the proposal to capture NAIC designations on Schedule D-2-2, if the funds captured in SSAP No. 26R were moved to SSAP No. 30, it is expected that corresponding revisions would be considered by the Capital Adequacy (E) Task Force to revise the RBC accordingly for the investments that were previously on D-1.

c. The existing guidance that allows SVO-Identified funds to be reported in scope of SSAP No. 26R, on Schedule D-1, has historically resulted with inconsistent reporting across companies for similar investments. This is because some reporting entities did not identify that specific ETFs or bond mutual funds were on the SVO-Identified listings. As such, funds that qualified for SSAP No. 26R have continued to be reported by some companies as if they were in scope of SSAP No. 30, on Schedule D-2-2. It is anticipated that if specific mutual funds were not listed as qualifying for SSAP No. 26R, then inconsistencies in reporting would be expanded as some reporting entities would continue to report the fund on Schedule D-2-2.

d. The Working Group noted that the proposal to allow NAIC designations on Schedule D-2-2 could provide the same benefits noted by commenters without requiring a reclassification of certain securities from SSAP No. 30 to SSAP No. 26R. With this proposed designation reporting change, mutual funds could be reported with an NAIC designation based on their underlying holdings, creating consistency in reporting which would allow the Capital Adequacy (E) Task Force to adjust risk-based capital charges if deemed appropriate.

Effective Date

29. The adoption of this issue paper by the Statutory Accounting Principles (E) Working Group, and the substantively-revised statement of statutory accounting principles (SSAP) occurred on November 15, 2018. The substantive revisions to SSAP No. 30R are detailed in Exhibit A of this issue paper, and reflected in the substantively-revised *SSAP No. 30R—Unaffiliated Common Stock*. The effective date of the guidance

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will be identified in the SSAP. Users of the *Accounting Practices & Procedures Manual* should note that issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding SSAP has been adopted by the Plenary of the NAIC.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

- *SSAP No. 30R—Unaffiliated Common Stock*

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EXHIBIT A – Substantive Revisions to SSAP No. 30R—Unaffiliated Common Stock

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for common stocks.

2. Investments in common stock of subsidiaries, controlled or affiliated entities (investments in affiliates) are not within the scope of this statement. They are addressed in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* (SSAP No. 97).

SUMMARY CONCLUSION

3. Common stocks (excluding investments in affiliates) are securities which represent a residual/subordinate ownership in a corporation. ~~and shall include~~This definition includes:

a. Publicly traded common stocks

b. Common stocks that are not publicly traded

c. Common stocks restricted as to transfer of ownership[1]

4. In addition, the following equity[2] investments are captured within scope of this statement:

~~b.~~a. Master limited partnerships trading as common stock and American deposit receipts only if the security is traded on the New York~~, American,~~ or NASDAQ exchanges~~

~~c.~~b. Publicly traded common stock warrants

~~d.~~c. Shares of SEC registered Investment Companies[3] captured under the Investment Company Act of 1940 (open-end investment companies (mutual funds), closed-end funds and unit investment trusts), regardless of the types or mix of securities owned by the fund (e.g., bonds~~,~~ or stocks[4]~~, money market instruments~~), except for Bond Mutual Funds which qualify for bond treatment, as identified in Part Six, Section 2, of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*

~~i. Bond Mutual Funds which qualify for bond treatment, as identified in Part Six, Section 2, of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*~~

[1] Restricted stock shall be defined as a security for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral), except where that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year. Any portion of the security that can be reasonably expected to qualify for sale within one year is not considered restricted. Regardless of redemption timeframe, FHLB capital stock is considered restricted stock until actual redemption by the FHLB.

[2] Unless as specifically noted, the equity investments identified within scope are subject to the provisions of this standard as if they were common stock investments.

[3] Non-SEC registered investment companies (e.g., private investment companies or hedge funds) are excluded from the scope of this statement.

[4] Money market mutual funds are considered cash equivalents under SSAP No. 2R.

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~~ii. Money Market Mutual Funds on the U.S. Direct Obligations/Full Faith and Credit Exempt List, as identified in Part Six, Section 2, of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*[5];~~

~~e.~~d. Exchange Traded Funds, except for those identified for bond or preferred stock treatment, as identified in Part Six, Section 2, of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*

~~f.~~e. ~~Common stocks that are not publicly traded, including e~~Equity interests in certified capital companies in accordance with *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)*

~~g. Common stocks that are restricted as to transfer of ownership. Restricted stock shall be defined as a security for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral), except where that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year. Any portion of the security that can be reasonably expected to qualify for sale within one year is not considered restricted. Regardless of redemption timeframe, FHLB capital stock is considered restricted stock until actual redemption by the FHLB.~~

~~4.~~5. ~~Common stocks~~Investments within scope of this statement meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted* Assets and are admitted assets to the extent they conform to the requirements of this statement.

Acquisitions and Sales

~~5.~~6. At acquisition, common stocks shall be reported at their cost, including brokerage and other related fees. Common stock acquisitions and dispositions shall be recorded on the trade date. Private placement stock transactions shall be recorded on the funding date. A reporting entity may become qualified for use of equity method accounting by an increase in the level of ownership. In this situation, the reporting entity shall add the cost of acquiring additional interest in the investee to the current basis of the previously held interest and shall apply the equity method, as prescribed in SSAP No. 97, prospectively, as of the date the investment becomes qualified for equity method accounting.

~~6.~~7. A reporting entity can subscribe for the purchase of stock, but not be required to make payment until a later time. Transactions of this nature are common in the formation of corporations. Common stock acquired under a subscription represents a conditional transaction in a security authorized for issuance but not yet actually issued. Such transactions are settled if and when the actual security is issued and the exchange or National Association of Securities Dealers (NASD) rules that the transactions are to be settled. Common stock acquired under a subscription shall be recorded as an admitted asset when the reporting entity or its designated custodian or transfer agent takes delivery of the security and the security is recorded in the name of the reporting entity or its nominee (i.e., the accounting for such common stock acquisitions shall be on the settlement date).

Balance Sheet Amount

~~7.~~8. Investments in scope of this standard~~unaffiliated common stocks~~ shall be ~~valued~~reported at fair value. For FHLB capital stock, which is only redeemable at par, the fair value shall be presumed to be par, unless considered other-than-temporarily impaired. Mutual funds, unit-invested funds, and exchange traded funds without a readily determinable fair value are permitted to be reported at net asset value if permitted as a practical expedient pursuant to the guidance in SSAP No. 100R. Closed-end funds are not permitted to

~~[5] Pursuant to SSAP No. 2R, effective December 31, 2017, money market mutual funds shall be reported as cash equivalents and valued at fair value (net asset value allowed as a practical expedient).~~

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be reported at net asset value and shall be reported at fair value. Changes in fair value (or net asset value, as permitted) shall be recorded as unrealized gains or losses.

~~8.~~9. For reporting entities required to maintain an Asset Valuation Reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* (SSAP No. 7). For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus.

Impairment

~~9.~~10. (INT 06-07) For any decline in the fair value of a common stock which is determined to be other than temporary the common stock shall be written down to fair value as the new cost basis and the amount of the write down shall be accounted for as a realized loss. For those reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7. Subsequent fluctuations in fair value shall be recorded as unrealized gains or losses. Future declines in fair value which are determined to be other than temporary shall be recorded as realized losses. A decline in fair value which is other than temporary includes situations where a reporting entity has made a decision to sell a security at an amount below its carrying value.

Income

~~10.~~11. Dividends on common stock shall be recorded as investment income on the ex-dividend date with a corresponding receivable to be extinguished upon receipt of cash (i.e., dividend income shall be recorded on stocks declared to be ex-dividends on or prior to the statement date).

~~11.~~12. For reporting entities required to maintain an AVR, the accounting for realized capital gains and losses on sales of common stock shall be in accordance with SSAP No. 7. For reporting entities not required to maintain an AVR, realized gains and losses on sales of common stock shall be reported as realized gains/losses in the statement of operations.

Stock Splits, Stock Dividends, Payment in Kind Dividends, and Stock Exchanges

~~12.~~13. Stock splits, stock dividends, payment in kind dividends, and stock exchanges shall be accounted for in accordance with *SSAP No. 95—Nonmonetary Transactions* (SSAP No. 95).

FHLB Capital Stock

~~13.~~14. FHLB capital stock is held by reporting entities that are members of an FHLB. Each reporting entity must acquire FHLB capital stock for membership and maintain capital stock holding sufficient to support its business activity (borrowings[6]) in accordance with the respective FHLB's capital plan. The price of FHLB capital stock cannot fluctuate, and all FHLB capital stock must be purchased, repurchased or transferred at its par value. FHLB capital stock is restricted for redemption in accordance with the FHLB capital plan and shall be coded as restricted within the financial statements (e.g., investment schedules and general interrogatories).

~~14.~~15. Acquisition of FHLB capital stock allows members to conduct business activity (borrowings) from an FHLB. The amount of capital stock acquired determines the reporting entity's eligible borrowing amount. At a minimum, all borrowings from an FHLB (regardless of structure) must also be fully collateralized in accordance with the FHLB capital plan, which determines the amount of collateral required by type of pledged instrument. Collateral pledged to an FHLB shall be coded as restricted within the

[6] Membership in an FHLB allows reporting entities to take advances / borrow from the FHLB. These borrowings can be structured in a variety of ways, for example: debt, funding agreements, repurchase agreements, securities lending, etc. Borrowings from an FHLB shall be reflected in the financial statements in accordance with the SSAP that addresses the substance of the agreement.

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financial statements (e.g., investments schedules and general interrogatories). Collateral pledged to an FHLB is considered an admitted asset if all of the following conditions are met:

a. the asset would have been admitted under SSAP No. 4;

b. the pledging insurer continues to receive the income on the pledged collateral;

c. the pledging insurer can remove and substitute other securities with little or advance notice to the FHLB as long as the insurer complies with related investment quality and market value provisions; and

d. there has been no uncured default or event to indicate an impairment or loss contingency for the pledged assets.

Disclosures

~~15.~~16 The following disclosures regarding common stocks shall be made in the financial statements:

a. Basis at which the common stocks are stated; and

b. A description, as well as the amount, of common stock that is restricted outside of FHLB agreements and the nature of the restriction. (Disclosures of FHLB capital stock are captured in paragraph ~~16~~17.)

c. For each balance sheet presented, aggregate common stocks in an unrealized loss position for which other-than-temporary declines in value have not been recognized,

i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and

ii. The aggregate related fair value of common stocks with unrealized losses.

d. The disclosures in (i) and (ii) above should be segregated by those common stocks that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with *SSAP No. 100R—Fair Value*.

e. As of the most recent balance sheet presented, additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.

f. When it is not practicable to estimate fair value, the investor should disclose the following additional information, if applicable, as of each date for which a statement of financial position is presented in its annual financial statements:

i. The aggregate carrying value of the investments not evaluated for impairment, and

ii. The circumstances that may have a significant adverse effect on the fair value.

FHLB Disclosures

~~16.~~17. For FHLB agreements, the following information shall be disclosed in the financial statements for current and prior year and between general account and separate account activity. The information in the disclosures shall be presented gross even if a right to offset per SSAP No. 64 exists.

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a. General description of FHLB agreements, with information on the nature of the agreement, type of borrowing (advances, lines of credit, borrowed money, etc.) and use of the funding.

b. Amount of FHLB capital stock held, in aggregate, and classified as follows: i) membership stock (separated by Class A and Class B); ii) Activity Stock; and iii) Excess Stock. For membership stock, report the amount of FHLB capital stock eligible for redemption[7] and the anticipated timeframe for redemption: i) less than 6 months, ii) 6 months to 1 year, iii) 1 year to 3 years, and iv) 3 to 5 years.

c. Amount (fair value and carrying value) of collateral pledged to the FHLB as of the reporting date, In addition, report the maximum amount of collateral pledged to the FHLB at any time during the current reporting period. (Maximum shall be determined on the basis of carrying value, but with fair value also reported)

d. Aggregate amount of borrowings at the reporting date from the FHLB reflecting compilation of all advances, loans, funding agreements, repurchase agreements, securities lending, etc., outstanding with the FHLB, and classify whether the borrowing is in substance: i) debt (*SSAP No. 15—Debt and Holding Company Obligations*), ii) a funding agreement (*SSAP No. 52—Deposit-Type Contracts*), or iii) Other. For funding agreements, report the total reserves established. Report the maximum amount of aggregate borrowings from an FHLB at any time during the current reporting period, the actual or estimated maximum borrowing capacity as determined by the insurer with a description of how the borrowing capacity was determined, and whether current borrowings are subject to prepayment penalties.

~~17.~~18. The disclosures in paragraphs ~~15~~16.c. through ~~15~~16.f. shall be included in the annual audited statutory financial reports only. The FHLB disclosures in paragraph ~~16~~17 are required in all interim and annual financial statements regardless if the activity is materially different from the activity reported during the prior reporting period. Refer to the Preamble for further discussion regarding disclosure requirements.

Relevant Literature

~~18.~~19. This statement adopts *ASU 2016-07, Investments - Equity Method and Joint Ventures,* modified to reflect statutory terms including the definition of control and statutory reporting concepts. This statement rejects *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities*, and *ASU 2016-01, Financial Instruments – Overall and FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities*.

Effective Date and Transition

~~19.~~20. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. Revisions adopted to this statement in October 2013 amending SSAP No. 15 and SSAP No. 52 to incorporate FHLB disclosure information are initially effective for interim and annual reporting periods after January 1, 2014. Revisions adopted to this statement in November 2018, incorporating closed-end funds and unit-investment trusts within scope, are initially effective January 1, 2019.

[7] For FHLB membership stock to be eligible for redemption, written notification must have been provided to the FHLB prior to the reporting date.

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REFERENCES

Other

- *Purposes and Procedures Manual of the NAIC Investment Analysis Office*
- NAIC Valuation of Securities product prepared by the Securities Valuation Office

Relevant Issue Papers

- ~~1.~~ *Issue Paper No. 30—Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated entities)*
- *Issue Paper No. 158—Unaffiliated Common Stock*

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Statutory Issue Paper No. 159

Special Accounting Treatment for Limited Derivatives

STATUS
Finalized November 15, 2018

Original SSAP: SSAP No. 108; Current Authoritative Guidance: SSAP No. 108

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. Current statutory accounting guidance for derivatives qualifying for hedging effectiveness is in *SSAP No. 86—Derivatives* (SSAP No. 86). Based upon a recommendation from the Variable Annuities Issues (E) Working Group, the Financial Condition (E) Committee issued the following 2017 charge to the Statutory Accounting Principles (E) Working Group:

> Develop specific statutory accounting guidance for certain limited derivative contracts hedging variable annuity guarantees, subject to fluctuations as a result of interest rate sensitivity, reserved for in accordance with *Actuarial Guideline XLIII—CARVM for Variable Annuities* (AG 43). This guidance shall place an emphasis on reducing non-economic surplus volatility for these specific hedges in situations where strong risk-management is in place, with safeguards to ensure appropriate financial statement presentation and disclosures, sufficient transparency, and regulatory oversight. This charge shall be a high priority, with the earliest effective date feasible that allows for adequate development of guidance and related reporting schedules.

2. Pursuant to the direction from the Financial Condition (E) Committee, this issue paper has been drafted to detail substantive statutory accounting revisions to allow special accounting treatment for limited derivatives hedging variable annuity guaranteed benefits subject to fluctuations as a result of interest rate sensitivity. The provisions within this issue paper are proposed to be separate and distinct from the guidance in SSAP No. 86, as the items subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under SSAP No. 86. Allowances provided within this issue paper are only permitted if all of the components of the issue paper are met, and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.

3. The guidance within this issue paper is anticipated to be included as a new SSAP applicable to the limited derivative situations addressed within. Upon adoption of the issue paper, the Working Group will conclude on the location of this guidance within statutory accounting.

SUMMARY CONCLUSION – PROPOSED NEW SSAP GUIDANCE:

4. This issue paper establishes statutory accounting principles to address certain, limited derivative transactions hedging variable annuity guarantees subject to fluctuations as a result of interest rate sensitivity. Eligibility for the special accounting provision within this standard is strictly limited to variable annuity contracts and other contracts involving certain guaranteed benefits similar to those offered with variable annuities that are reserved for in accordance with Valuation Manual 21: Requirements for Principal-Based Reserves for Variable Annuities (VM-21)[1]. The statutory accounting guidance within this issue paper is considered a special accounting provision, only permitted if all the components in the standard

[1] Actuarial Guideline XLIII, CARVM for Variable Annuities (AG 43) shall apply in states that have not adopted the Valuation Manual.

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are met, and shall not be inferred as an acceptable statutory accounting approach for situations that do not meet the stated qualifications or that are not specifically addressed within this guidance.

Terms/Concepts (for purposes of this Issue Paper)

5. The following terms reflect concepts specific to this issue paper. (This listing only details the key concepts. Specific guidelines are reflected throughout the guidance.)

a. Derivative Instrument: Means an agreement, option, instrument or series or combination thereof: (1) To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof, or (2) That has a price, performance, value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests.

b. Dynamic Hedging Approach: A dynamic hedging strategy allows for the portfolio of derivatives comprising the hedging instrument to be rebalanced in accordance with changes to the hedged item in order to adhere to the specified, documented hedging strategy.

c. Hedged item: The hedged item shall consist of declared guarantee benefits on a pool, or portion thereof, of variable annuity contracts exposed to interest rate risk. The hedged item may relate to an open or flexible portfolio (e.g., group of variable annuity contracts with different characteristics and liability durations) that allows for addition of newly issued contracts, subtraction of surrenders and fluctuations in balances. The portfolio of variable annuity contracts may consist of an entire book of business or declared components thereof.

d. Hedging Instrument: The hedging instrument shall reflect a specified derivative, or a portfolio of specified derivatives, that hedges the interest rate sensitivity of the designated hedged item. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item.

Special Accounting Provision

6. The special accounting provision within this issue paper permits reporting entities to utilize a form of "macro-hedging" in which a portfolio of variable annuity policies, which could include the entire book of business or subsections thereof, are jointly designated as the host contracts containing the hedged item, in a fair value hedge[2], pursuant to a Clearly Defined Hedging Strategy (throughout this issue paper also referred to as "CDHS" or "hedging strategy"). This is considered a macro-hedge, as the designated hedged item (rate sensitive guarantee benefits) may be attached to a portfolio of variable annuity contracts with different characteristics and liability durations. Under this special accounting provision, the portfolio of contracts giving rise to the hedged item is not required to be static, but can be revised to remove policies and/or include new policies to allow for continuous risk management (hedging) of the variable annuity guarantees in accordance with the specific risks being hedged and the hedge objectives of the specified, documented hedging strategy. In designating the hedged item, reporting entities are permitted to exclude specific components of the variable annuity contracts, but such exclusions must apply collectively to all policies included within the portfolio. For example, reporting entities may elect to only hedge the interest rate risk of rider cash flows, and if making this election, would define the hedged item as the "fair value of rider claims net of rider fees" for the portfolio of policies designated as giving rise to the hedged item.

7. This special accounting provision permits reporting entities to utilize a specified derivative, or a portfolio of specified derivatives, as the hedging instrument within a fair value hedge to hedge the interest

[2] As detailed in paragraph 12, these hedges are required to be highly effective in achieving offsetting changes in fair value attributed to the hedged risk between the derivative hedging instruments and the hedged item during the period that the hedge is designated.

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rate sensitively, or a specific percentage[3] of the interest rate sensitivity, of the designated hedged item. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item in order to adhere to the specified, documented hedging strategy. Although the hedging instruments must address interest rate risk, this guidance does not preclude use of derivative instruments that may offset risks other than interest rate risk from being designated as the hedging instruments. For derivative instruments that are affected by multiple risk factors, including interest rate risk, reporting entities shall apply this special accounting treatment to the change in fair value due to interest rate risk. Reporting entities shall bifurcate the change in fair value due to the various risk factors - e.g., fair value volatility due to interest rates (rho), and other risk factors, such as equity level (delta) or volatility (vega). Pursuant to paragraphs 12 and 15, fair value fluctuations not attributed to the hedged risk, including fair value changes from excluded open components, shall be recognized as unrealized gains or losses.

8. With the provisions in this standard to allow for flexibility in the hedged item (changes to variable annuity contracts within a portfolio) coupled with a dynamic hedging approach (rebalancing of derivative hedging instruments), there is a greater risk of misrepresentation of successful risk management and achievement of a highly effective hedging relationship. Although this risk cannot be eliminated, the following provisions intend to ensure governance of the program and provide sufficient tools to allow for regulator review:

a. Prior to implementing a hedging program for application within scope of this standard, the reporting entity must obtain explicit approval from the domiciliary state commissioner allowing use of this special accounting provision. The domiciliary state commissioner may subsequently disallow use of this special accounting provision at their discretion. Although this guidance does not restrict the state domiciliary commissioner on when to prohibit future use, disallowance should be considered upon finding that the reporting entity's documentation, controls, measurement, prior execution of strategy or historical results are not adequate to support data use.

b. Actuarial certifications of VM-21 reserves, consistent with Valuation Manual requirements, which explicitly include the following:

i. Certification as to whether the hedging strategy is incorporated within the establishment of VM-21 reserves, and the impact of the hedging strategy within the VM-21 Conditional Tail Expectation Amount.

ii. Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual trading of assets and derivatives) that the hedging strategy meets the definition of a Clearly Defined Hedging Strategy within VM-21 and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day-to-day risk mitigation efforts. This provision does not require reporting entities to use a hedging strategy in determining VM-21 reserves, nor does it require entities to use the special accounting provision within this standard. However, it does require reporting entities that use the special accounting provisions within this standard to certify that the hedging strategy within scope of this standard is a Clearly Defined Hedging Strategy and is reflected in the establishment of VM-21 reserves.

9. As identified in paragraph 4, eligibility for the special accounting provision within this standard is strictly limited to variable annuity contracts and other contracts involving certain guaranteed benefits similar to those offered with variable annuities that are reserved for in accordance with VM-21. This special

[3] In identifying the hedged risk, reporting entities must identify whether they are hedging the full, or a portion of (e.g., 40%), the interest rate sensitivity.

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accounting provision requires the reporting entity to engage in highly effective fair value hedges that follow a Clearly Defined Hedging Strategy, as defined in VM-21, meeting all required provisions of VM-21 allowing the reporting entity to reduce the amount of the Conditional Tail Expectation (CTE) Amount. In order to qualify as a Clearly Defined Hedging Strategy (which may be dynamic, static, or a combination thereof), the strategy must meet the principles outlined in VM-21, be in place (implemented) for at least three months[4], and shall at a minimum, identify:

a. Specific risks being hedged[5],

b. Hedge objectives,

c. Risks not being hedged,

d. Financial instruments that will be used to hedge the risks,

e. Hedge trading rules, including permitted tolerances from hedging objectives,

f. Metric(s) used for measuring hedging effectiveness,

g. Criteria that will be used to measure effectiveness,

h. Frequency of measuring hedging effectiveness,

i. Conditions under which hedging will not take place, and

j. The individuals responsible for implementing the hedging strategy.

10. While an initially documented hedging strategy may subsequently change, any change in hedging strategy, which includes a change in hedge target, shall be documented, with notification to the domiciliary state commissioner, and include an effective date of the change in strategy. Reporting entities that elect to change a documented hedging strategy prior to the end of the three-month minimum implementation timeframe shall identify the hedging strategy, and all hedging instruments executed under the strategy, as ineffective. The three-month timeframe begins with the stated effective date of the hedging strategy regardless if any hedging instruments have been executed under the hedging strategy. Changes in a documented hedging strategy that occur after the three-month implementation timeframe do not necessitate an ineffective determination as long as hedged items and hedging instruments under the revised/new strategy continue to meet the requirements of a highly effective fair value hedge. Reporting entities are permitted to have more than one hedging strategy implemented, but all implemented strategies must qualify as a component of a Clearly Defined Hedging Strategy pursuant to paragraph 9.

Assessing Hedge Effectiveness

11. The provisions within this standard require the entity to use a specific method, as detailed in paragraph 12, to assess hedge effectiveness at inception and on an ongoing basis. At a minimum, hedge effectiveness assessment is required whenever financial statements are reported, at least every three months.

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[4] As detailed in VM-21, before a new or revised hedging strategy can be used to reduce the amount of the Conditional Tail Expectation (CTE) otherwise calculated, the hedging strategy should be in place (effectively implemented) for at least three months. As detailed in VM-21, the reporting entity may meet the time requirement by having evaluated the effective implementation of the hedging strategy for at least three months without actually having executed the trades indicated by the hedging strategy (e.g., mock testing or by having effectively implemented the strategy with similar annuity products for at least three months.)

[5] The specific risk being hedged shall include a measure of the hedge coverage (e.g., percentage of interest rate sensitivity being hedged).

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Documentation requires prospective and retrospective[6] hedge effectiveness assessments, with on-going assessment consistent with the originally documented risk management strategy.

12. Both at inception, and on an ongoing basis, the hedging relationship must be highly effective in achieving offsetting changes in fair value attributed to the hedged risk during the period that the hedge is designated. Reporting entities electing to use this special accounting provision must calculate the fair value of the hedged item at inception and on an ongoing basis, and compare the fair value change of the hedged item to the fair value change of the hedging instruments in assessing whether the relationship is highly effective on a cumulative basis. This comparison is specific to the designated hedged risks and exposures, therefore, if only a portion of the interest rate risk is hedged or if the designated hedge only include specific components of the variable annuity policies (e.g., riders), for determining hedge effectiveness, the fair value comparisons is limited to those designated items. If an entity's defined risk management strategy for a particular hedging relationship excludes specific components of the hedging derivative from the assessment of hedge effectiveness, the excluded open components shall be reported at fair value with gains or losses recognized as unrealized gains or losses.

13. The term "highly effective" describes a fair value hedging relationship where the change in fair value of the derivative instrument is within 80 to 125 percent of the opposite change in fair value of the hedged item attributed to the hedged risk. It shall also apply when an R-squared of .80 or higher is achieved when using a regression analysis technique.

Measurement/Recognition of Gains and Losses of Outstanding (Open) Instruments

14. All designated hedging instruments (all derivatives, including those reflected in portfolios) shall be reported in the financial statements at fair value.

15. Fair value fluctuations in the measurement of outstanding (non-expired) derivatives within a highly effective hedging strategy shall be reflected as follows:

a. Fair value fluctuations in the hedging instruments attributable to the hedged risk that offset the current period change in the designated portion of the VM-21 reserve liability[7] shall be recognized as a realized[8] gain or loss.

b. Fair value fluctuations in the hedging instruments attributable to the hedged risk[9] that do not offset the current period change in the designated portion of the VM-21 reserve liability

[6] For situations in which there has been a change in hedging strategy pursuant to paragraph 10, when conducting retrospective hedge effectiveness assessments, reporting entities shall assess effectiveness based on the hedge target that was actually in effect during the retrospective time periods.

[7] Hedge effectiveness is determined by comparing fair value fluctuations between the hedging instruments and the hedged item. However, in determining recognition in the financial statements, the fair value fluctuation of the hedging instruments is compared to the change in the reported value of the designated portion of the VM-21 liability. The designated portion of the VM-21 liability is not reported at fair value in the statutory financial statements, as such, the offset reported as realized gains and losses is the portion of the fair value change in hedging instruments offset by the change in the reported value of the designated portion of the VM-21 reserve. In accordance with the documented hedging strategy, reporting entities shall compare the fair value fluctuations to the change in the designated portion of the reserve liability, after considering recognized derivative returns (including recognized derivative income), when determining the recognition of fair value fluctuations.

[8] Recognizing the fair value change for open derivative positions that offset the VM-21 change as a realized gain/loss (instead of an unrealized gain or loss) directly offsets the VM-21 reserve change in the income statement.

[9] The change in fair value of the hedging instruments and hedged item is limited to changes driven by market factors. For example, periodic recognition of a cost owed to acquire the derivative from a counterparty (financing cost) shall not be captured as a change in the derivative instrument's fair value. The fair value of the instrument shall be determined based on the underlying derivative without inclusion of acquisition costs (or other such contractual elements that may exist with the counterparty) that do not change based on the underlying derivative interests or market factors.

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shall be recognized as deferred assets (admitted) and deferred liabilities. The ability to recognize a deferred asset and deferred liability is limited to only the portion of the fair value fluctuation in the hedging instruments that is attributed to the hedged risk and does not immediately offset changes in the designated portion of the VM-21 reserve liability.

c. An amount equal to the net deferred asset and deferred liability (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus. Upon domestic regulator request, reporting entities shall provide estimations of RBC as if the special accounting provisions had not been applied. This estimation shall reflect the removal of deferred assets or deferred liabilities, and reflect the impact to unassigned funds as if the derivative gains and losses had been recognized.

d. As detailed in paragraph 12, fair value fluctuations in the hedging instruments that are not attributable to the hedged risk, shall be recognized as unrealized gains or unrealized losses.

e. Reporting entities shall utilize the following calculation for establishing the deferred asset (also illustrated in Exhibit A) unless a different method has been approved by the domiciliary state commissioner:

i. Calculate the fair value gain or loss in the hedged item attributable to the hedged risk.

ii. Express the quantity calculated in paragraph 15.e.i. as a percentage of the change in the full-contract fair value (i.e., with all product cash flows) attributed to interest rate movements[10].

iii. Calculate the VM-21 liability change attributed to the hedged risk as the quantity calculated in paragraph 15.e.ii. multiplied by the VM-21 liability change attributable to interest rate.

iv. Establish the deferred asset or deferred liability in the amount of the fair value loss or (gain) of the designated hedging instruments attributed to the hedged risk less the VM-21 liability decrease or (increase) attributed to the hedged risk as calculated in paragraph 15.e.iii.

v. Allocate an amount equal to the net deferred asset and deferred liability (net amount from all hedging strategies/programs captured within this guidance) to special surplus.

16. Deferred assets and deferred liabilities recognized under paragraph 15.b. shall be amortized using a straight-line method into realized gains or realized losses over a finite amortization period. The amortization timeframe shall equal the Macaulay duration of the guarantee benefit cash flows based on the VM-21 Standard Scenario, but shall not exceed a period of 10 years.

a. Future recognition of deferred assets or liabilities (fair value fluctuations attributed to the hedged risk that are not offset by the reserve liability change) do not extend the amortization timeframe for previously recognized deferred assets or deferred liabilities. Reporting entities are required to separately track, with a schedule to show the initial deferred amount and amortization schedule, of the deferred assets and deferred liabilities recognized and outstanding at each reporting date.

[10] The result of this calculation (the coverage ratio) should not exceed 100% nor drop below zero.

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b. The amount reported on the financial statement at each reporting date shall reflect the net amount (net as either a deferred asset or deferred liability) for each hedging strategy captured within scope of this guidance. (Reporting entities that have more than one hedging strategy could have both deferred assets and deferred liabilities in the financial statements based on the net position of the separate hedging strategies.)

c. Reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities into realized gains or realized losses at any time in advance of the scheduled amortization period.

i. If electing to accelerate amortization, reporting entities are required to accelerate amortization equally between deferred assets and deferred liabilities within a single hedging strategy. For example, a reporting entity is not permitted to accelerate amortization of the deferred liabilities (recognizing the gains from fair value changes) and not accelerate amortization of the deferred assets (continuing to defer losses from fair value changes). If a reporting entity only has a single hedging strategy which only reflects deferred assets or deferred liabilities, the reporting entity is permitted to accelerate amortization without restrictions.

ii. If a reporting entity has more than one hedging strategy, and the strategies have offsetting net positions (both deferred assets and deferred liabilities are recognized in the financial statements), a reporting entity's election to accelerate amortization must be applied equally to programs with offsetting net positions. (For example, a decision to accelerate amortization of a program with a net deferred liability must be applied equally to a program with a deferred asset that best corresponds to the deferred liability[11].) In these situations, the guidance in paragraph 16.c.i is also applicable, whereas, the accelerated amortization must also apply equally to the deferred assets and deferred liabilities within each individual hedging program. If a reporting entity with more than one hedging strategy only has net deferred assets or net deferred liabilities recognized, the reporting entity is permitted to accelerate amortization to a single program in a manner consistent with the guidelines in paragraph 16.c.i.

17. For outstanding (non-expired) derivative instruments that were removed from a highly effective hedging strategy (rebalanced), subsequent gains and losses from fair value fluctuations shall not impact the previously recognized deferred assets or deferred liabilities. The deferred assets and deferred liabilities for these derivative instruments shall be "locked" and amortized under the remaining schedule unless the reporting entity elects to terminate or accelerate amortization. Subsequent to the removal from a highly effective strategy, all fair value fluctuations from the outstanding derivative instruments would be subject to the guidance in SSAP No. 86, and recognized as unrealized gains and/or unrealized losses. If the derivative is re-designated as part of a highly effective hedging strategy qualifying under this standard, subsequent fair value fluctuations (after the re-designation) may be accounted for under the special accounting provision detailed in this issue paper.

18. For outstanding (non-expired) derivative instruments in a hedging strategy that no longer qualifies within scope of this standard (e.g., VM-21 requirements are not met) or is no longer a highly effective hedge, any non-amortized deferred assets or deferred liabilities shall be amortized to unrealized gains or unrealized losses over the remaining amortization timeframe, not to exceed five-years. If the deferred assets/deferred liabilities have a remaining amortization period that is less than the shortened timeframe, amortization shall continue over the remaining period. If the remaining amortization period is greater than 5-years at the time of the program no longer qualifies, or is no longer highly effective, the amortization

[11] The intent of this guidance is to ensure that the ability to accelerate amortization does not result with elections that simply result in favorable financial statement presentation.

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schedule shall be revised to require full amortization within the shortened 5-year timeframe. If elected by the reporting entity, deferred assets and deferred liabilities may be immediately recognized as unrealized gains and/or unrealized losses or have accelerated amortization (less than 5-years) as unrealized gains and/or unrealized losses. (An election to immediate eliminate or accelerate amortization must follow the provisions in paragraph 16.c.) All future fair value fluctuations for these derivative instruments would be subject to the guidance in SSAP No. 86, and shall be recognized as unrealized gains or unrealized losses unless the instrument is subsequently designated as part of a highly effective hedging strategy within scope of this issue paper. If the derivative is re-designated as part of a highly effective hedging strategy qualifying under this standard, subsequent fair value fluctuations (after the re-designation) may be accounted for under the special accounting provision detailed in this issue paper.

19. Reporting entities may elect to terminate use of this special accounting provision at any time. In those instances, if the derivative instruments are outstanding, all deferred assets and deferred liabilities shall be amortized to unrealized gains or unrealized losses over the remaining amortization timeframe, not to exceed five-years. If the deferred assets/deferred liabilities have an amortization period that is less than the shortened 5-year timeframe, amortization shall continue over the established period. If the remaining amortization period is greater than 5-years at the time of termination, the amortization schedule shall be revised to require full amortization within the shortened 5-year timeframe. If elected by the reporting entity, deferred assets and deferred liabilities may be immediately eliminated, have accelerated amortization (less than 5-years) with recognition as unrealized gains and/or unrealized losses. (An election to immediate eliminate or accelerate amortization must follow the provisions in paragraph 16.c.) Once the special accounting provision is terminated, unless re-designated by the reporting entity, subsequent accounting of the derivatives in a hedging strategy that would be captured within this issue paper shall follow the fair value accounting approach in SSAP No. 86[12].

Measurement/Recognition of Realized Gains or Losses of Expired Derivatives

20. With the ability to rebalance the hedging instrument, this guidance allows for individual derivative instruments to expire and/or be removed from the portfolio of the hedging instrument, and not immediately trigger an assessment that the overall hedging strategy is no longer highly effective. Furthermore, special allowances are included to consider the tenure differences between a hedging instrument and VM-21 liability duration. These allowances permit expired[13] derivative instruments that were part of a highly effective hedging strategy at the time of expiration to continue amortizing the deferred gains and deferred losses over the previously established amortization timeframe even if the overall hedging strategy is subsequently terminated or subsequently identified as no longer qualifying as a highly effective hedge.

21. Pursuant to the provisions in paragraph 16.c., reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities from expired derivatives into realized gains or realized losses in advance of the scheduled amortization period.

22. Consistent with the guidance in paragraph 19, reporting entities may elect to terminate use of this special accounting provision at any time. In those instances, if the derivative instruments have expired, all deferred assets and deferred liabilities shall be amortized to realized gains or realized losses over the remaining amortization timeframe, not to exceed 5-years. If the deferred assets/deferred liabilities had an amortization period that was less than the shortened timeframe, amortization shall continue over the established period. If the amortization period was greater than 5-years at the time of termination, the amortization schedule would be revised to require full amortization within the shortened timeframe. If elected by the reporting entity, the deferred assets and deferred liabilities may be immediately eliminated,

[12] Macro-hedges and the ability to rebalance hedging instruments are not provisions permitted within "effective" hedges in scope of SSAP No. 86. As such, hedging strategies with these components accounted for under SSAP No. 86 shall follow the fair value accounting approach detailed in that standard.

[13] Throughout this standard the use of the word "expire" is intended to capture all instances in which the derivative is no longer outstanding. It includes maturities, terminations, sales, and/or other closing transactions of a derivative.

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or have accelerated amortization, with recognition as realized gains and/or realized losses. An election to immediate eliminate or accelerate amortization (less than 5 years) must follow the provisions in paragraph 16.c.)

Derivative Income

23. Derivative income shall be recognized when earned.

24. Pursuant to the documented hedging strategy as a fair value hedge, derivative income shall be considered as part of the overall hedging strategy and included in the assessments on whether the strategy is highly effective.

Disclosures

25. A reporting entity that has any outstanding derivatives accounted for under this special accounting provision, or that has unamortized deferred assets and/or deferred liabilities (representing previously unrecognized qualifying fair value fluctuations) from expired derivatives under the special accounting provision shall disclose the following within the financial statements:

a. Discussion of hedged item, including information on the guarantees sensitive to interest rate risk, along with information on the designated hedging instruments being used to hedge the risk. Discussion of the hedging instruments shall identify whether a hedging instrument is a single instrument or portfolio, as well as information on the hedging strategy (including whether there have been changes in strategy from the prior reporting period, along with detailed information on the changes), and assessment of hedging effectiveness and compliance with the "Clearly Defined Hedging Strategy" of VM-21. Identification shall occur on whether the hedged item is intended to be fully hedged under the hedging strategy, or if the strategy is only focused on a portion of the liability characteristics or a portion of the interest rate sensitivity. Hedging strategies shall be identified as highly effective or not highly effective. If the strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, from the assessment of hedge effectiveness, details on the excluded components shall be disclosed.

b. Aggregate disclosure of the original cost and fair value of hedging instruments (including all instruments within a portfolio), including any net investment income, realized and unrealized gains and losses during the reporting period. Additionally, disclose the fair value of the hedged item, the change in fair value from the prior reporting period, and the portion of the fair value change attributed to the hedged risk.

c. Schedule showing the aggregate fair value change from the prior reporting period for the designated components for all hedging instruments, with identification of the fair value change reflected in realized gains, realized losses, deferred assets, and deferred liabilities. This schedule shall also show the current period amortization, including any accelerated amortization elected by the reporting entity, and the future scheduled amortization of the deferred assets and deferred liabilities. This schedule shall identify the fair value of the excluded components of the hedging instruments, and the fair value change for those components reflected in unrealized gain and unrealized loss.

d. For hedging strategies no longer identified as highly effective previously captured within scope of this standard, information on the determination of ineffectiveness, including variations from prior assessments resulting in the change from classification as a highly effective hedge. This disclosure shall also include:

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i. Identification of outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective.

ii. Deferred assets and deferred liabilities previously recognized when the program was highly effective, with a schedule that shows the amortization that would have occurred if the program had remained highly effective, the amount of original amortization as well as a schedule that details the amortization that will occur as the program is no longer highly effective (maximum five-year timeframe).

iii. Disclosure on whether the reporting entity is electing to accelerate amortization (in advance of the remaining scheduled amortization or the maximum five-year timeframe), along with amounts immediately recognized to unrealized gains/losses, and how the election impacts the scheduled amortization.

e. For situations in which the reporting entity has elected to terminate the hedging strategy and/or discontinue the special accounting provisions permitted within this SSAP, the reporting entity shall disclose the key elements in the reporting's entity' decision to terminate, identifying changes in the reporting entity's objectives or perspectives from initial application. This disclosure shall also include:

i. Identification of outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminated.

ii. Deferred assets and deferred liabilities previously recognized under the hedging strategy and/or program, with a schedule that shows the amortization that would have occurred if the strategy and/or program had remained highly effective, as well as a schedule that details the amortization that will occur with the termination of the strategy and/or program (maximum five-year timeframe).

iii. Disclosure on whether the reporting entity is electing to accelerate amortization (in advance of the remaining scheduled amortization or the maximum five-year timeframe), along with amounts immediately recognized to unrealized gains/losses, and the resulting impact to the scheduled amortization.

Effective Date and Transition of SSAP No. 108

26. *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* (SSAP No. 108) is effective January 1, 2020, with early adoption permitted January 1, 2019[14]. The guidance in SSAP No. 108 is required to be applied on a prospective basis for qualifying hedge programs in place on or after the effective date. This prospective application prohibits deferred asset and deferred liability recognition from fair value

[14] After adoption of this issue paper, the NAIC will release a Statement of Statutory Accounting Principle (SSAP) for comment. Users of the Accounting Practices and Procedures Manual should note that issue papers are not represented in the Statutory Hierarchy (See Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding SSAP has been adopted by the Plenary of the NAIC.

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fluctuations previously recognized as unrealized gains or losses that occurred prior to the effective date of the guidance.

27. Reporting entities that have previously received permitted or prescribed practices for qualifying hedge programs, resulting with the recognition of deferred assets/deferred liabilities from unrecognized fair value fluctuations, shall work with their domiciliary state regulator to determine the appropriate method in transitioning from previously approved permitted practices. The reporting entity shall include disclosure of the transition approach approved by the domiciliary state in their financial statements in the first year of application. The approved transition approach is not considered a permitted practice as long as the reporting entity is fully compliant with the provisions of this issue paper after implementation. After the effective date of SSAP No. 108, domiciliary state provisions that differ from SSAP No. 108 must be disclosed as a permitted or prescribed practice pursuant to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* (SSAP No. 1).

Proposed new General Interrogatories:

These would not be in the final SSAP. These revisions will be referred to the Blanks (E) Working Group.

26.1 Does the reporting entity have any hedging transactions reported on Schedule DB?

26.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? If no, attach a description with this statement.

26.3 Does the reporting entity utilize derivatives to hedge variable annuity guarantees subject to fluctuations as a result of interest rate sensitivity?

26.4 If so, does the reporting entity utilize:

Special Accounting Provision in SSAP No. 108

Permitted Accounting Practice

Other Accounting Guidance

26.5 If the reporting entity utilizes the special accounting provision in SSAP No. 108, the reporting entity shall attest to the following:

Reporting entity has obtained explicit approval from the domiciliary state.

Hedging strategy subject to the special accounting provisions is consistent with the requirements of Actuarial Guideline 43.

Actuarial certification has been obtained which indicates that the hedging strategy is incorporated within the establishment of Actuarial Guideline 43 reserves, and provides the impact of the hedging strategy within the Actuarial Guideline Conditional Tail Expectation Amount.

Financial Officer Certification has been obtained which indicates that the hedging strategy meets the definition of a Clearly Defined Hedging Strategy within Actuarial Guideline 43 and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day-to-day risk mitigation efforts.

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EXHIBIT A – CALCULATION OF DEFERRED ASSET OR DEFERRED LIABILITY

Under the special accounting provisions within this issue paper, as detailed in paragraph 15.e., fair value fluctuations in the hedging instruments attributable to the hedged risk that do not offset the current period change in the hedged item (the change in the VM-21 reserve liability) can be recognized as deferred assets (admitted) and deferred liabilities.

The ability to recognize a deferred asset and deferred liability is limited to only the portion of the fair value fluctuation in the hedging instruments that is attributed to the hedged risk and does not immediately offset changes in the hedged item. As detailed in the standard, the hedged risk may be designated as a specific component of the hedged item. For example, if the variable annuity reserve benefits are matched to bonds, the hedged risk could only be the portion of interest rate risk remaining after the natural hedge based on the asset-liability matching.

Unless a different method has been approved by the domiciliary state commissioner, reporting entities shall utilize the following calculation (detailed in paragraph 15) for establishing the deferred asset:

15.e.i Calculate the fair value gain or loss in the hedged item attributable to the hedged risk (Step 1);

15.e.ii Express the fair value gain or loss calculated (Step 1) as a percentage of the change in the full-contract fair value (i.e., with all product cash flows) attributed to interest rate movements (Step 2)[15].

15.e.iii Calculate the VM-21 liability change attributed to the hedged risk as the quantity calculated in Step 2 multiplied by the VM-21 liability change attributable to interest rate (Step 3).

15.e.iv Establish the deferred asset or deferred liability in the amount of the fair value loss or (gain) of the designated hedging instruments attributed to the hedged risk less the VM-21 liability decrease or (increase) attributed to the hedged risk as calculated in Step 3.

15.e.v. Allocate an amount equal to the net deferred asset and deferred liability (net amount from all hedging strategies/programs captured within this guidance) to special surplus.

To illustrate the above calculation:

Clearly Defined Hedging Strategy (CDHS) characteristics

Hedged item	Rider claims less rider fees
Hedged risk	50% of the rho (first-order IR level sensitivity)

Calculation of the deferred asset or liability

Note: positive values = increase in liability

Fair value gain (loss) in hedged item attributable to interest rate movement	(500)
15.e.i. - Fair value gain (loss) in hedged item attributable to hedged risk	(250)

[15] The result of calculation (the coverage ratio) should not exceed 100% nor drop below zero.

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Hence, if the insurer were hedging per the CDHS perfectly, then the insurer should see a 250 fair value loss in the designated IR hedge instruments. To determine how much of that loss should be deferred:

Fair value gain (loss) in full-contract cash flows attributable to IR movement	(700)
15.e.ii - Quantity calculated in 15.b.i. as a % of the (700) above	36%

VM-21 liability increase (decrease) from beginning of period to end of period	400
VM-21 liability increase (decrease) attributable to interest rate movements	(100)
15.e.iii - VM-21 liability increase (decrease) attributable to the hedged risk	(36)

In this example, even though the VM-21 liability increased by 400 during the reporting period, interest rate movements actually contributed to a 100 *decrease*. The hedged risk (50% of the interest rate sensitivity of rider cash flows) accounts for 36% of this, or \$36 of the liability decrease. As such, \$36 of the fair value loss on the interest rate hedge instruments should be reflected immediately and the remainder deferred via a deferred asset equal in amount to 250 – 36 = 214.

15.e.iv – Deferred asset (15.b.i less 15.b.iii) attributable to hedged risk	**(214)**

(This is shown as a negative – to be consistent with the decrease in VM-21 liability – but represents a deferred asset. Deferred assets reflect fair value losses.)

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DISCUSSION

28. The provisions within this issue paper are significantly different from what is currently allowed under SAP, U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). The concept of allowing "effective hedge" accounting treatment for macro-hedges is currently not endorsed by any of the noted accounting standards. Provisions within this issue paper have been drafted with the intent to encourage risk-management transactions by insurers for limited, qualifying transactions in order to reduce non-economic surplus volatility and ensure appropriate financial statement presentation with sufficient transparency for regulator review.

Application of SSAP No. 86 Guidance

29. The concepts within scope of this issue paper, particularly the allowance for macro-hedges and dynamic (rebalancing) hedging instruments are not permitted within SSAP No. 86. Although limited comments have been received indicating that macro-hedge transactions using a dynamic (rebalancing) approach for variable annuity guarantees could occur under the current concepts of SSAP No. 86, the Statutory Accounting Principles (E) Working Group does not agree with this interpretation. The Working Group agrees that separate guidance is needed to address these limited derivative situations to comply with the Financial Condition (E) Committee charge.

30. Hedge effectiveness determinations under SSAP No. 86 require use of derivative instruments in hedging transactions that meet the criteria in SSAP No. 86. The application of the guidance in SSAP No. 86, as well as existing hedge effectiveness guidance under U.S. GAAP and IFRS, is contrary to the concept of a dynamic hedging as the existing guidance is designed primarily for static exposures in which it is necessary to identify a specific hedged item and hedging instrument, and designate them as linked in an individual hedging relationship.

31. Existing SSAP No. 86 guidance for fair value hedges does allow for similar assets or similar liabilities to be aggregated and hedged as a portfolio. With the fair value hedge portfolio guidance, a particular risk exposure is required to be designated, and the portfolio of similar assets or similar liabilities must share the risk exposure for which they are designated as being hedged. As detailed within paragraph SSAP No. 86, paragraph 23.e, "the change in fair value attributed to the hedged risk for each individual item in a hedged portfolio must be expected to respond in a generally proportionate manner to the overall change in fair value of the aggregate portfolio attributed to the hedged risk". This guidance is adopted explicitly from U.S. GAAP. The FASB has specifically indicated that the "proportional" requirement was to be interpreted strictly, but did not require the term to reflect "identical" items. To illustrate, under a FASB example, percentage decreases within a range of 9 to 11 percent could be considered proportionate if that interest rate change reduced the fair value of the portfolio by 10 percent.

32. SSAP No. 86 does not include guidance permitting cash flow hedges involving portfolios. SSAP No. 86 guidance is explicit that the hedging relationship shall be highly effective in achieving offsetting cash flows attributable to a particular risk during the term of the hedge. The guidance identifies that this exposure may be associated with an existing recognized asset or liability, or as a forecasted transaction[16].

33. With regards to forecasted transactions, SSAP No. 86 allows single transactions and groups of individual transactions to be the hedged transaction. If the hedged transaction is a group of individual transactions, the transactions must share in the same risk exposure for which they are designated as being hedged. The guidance for forecasted transactions does allow more than one risk to be hedged (for example, the risk of changes in cash flows can be related to purchase/sales price, interest rate risk, foreign currency

[16] A forecasted transaction is a transaction expected to occur for which there is no firm commitment. Because no transaction or event has yet occurred and the transaction or event - when it occurs - will be at the prevailing market price, a forecasted transaction does not give an entity any present rights to future benefits or a present obligation for future sacrifices. For transactions detailed within this issue paper, the hedged items are recognized liabilities (VM-21 reserves); therefore the guidance for derivative forecasted transactions does not appear applicable for derivatives within scope of this issue paper.

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change risk, or default risk), however, the occurrence of the forecasted transaction (e.g., purchase/sale, cash inflow/outflow) must be probable. (SSAP No. 86 identifies that the term probable requires a significantly greater likelihood of occurrence than the phrase more likely than not.) Once a forecasted transaction is no longer probable, hedge accounting is to immediately cease and any deferred gains or losses are to be recognized immediately. Once a pattern occurs of forecasted transactions not being probable, the entity's ability to accurately predict forecasted transactions is questioned and the entity is no longer permitted to use hedge accounting in the future for similar forecasted transactions.

34. Furthermore, existing guidance in SSAP No. 86 is drafted to reflect derivative transactions hedging invested assets. Although the scope of SSAP No. 86 does not limit the guidance to assets (or excludes hedges of liabilities), the specific provisions within the standard do not provide guidance for hedging liabilities. As noted within this issue paper, the new guidance will be specific to derivative transactions hedging the VM-21 liability.

35. The concepts reflected in the March 2016 original agenda item "the Initial Staff Proposal for Discussion" (subsequently referred to as the "original agenda item") proposed use of a "closed" portfolio concept. As detailed within the guidance in this issue paper, the requirement of a closed portfolio has been revised to allow use of a flexible portfolio as the hedged item, providing the ability to continuously adjust the hedged item to remove policies and/or include new policies to effectively manage risk. Use of an open portfolio further differentiates the hedging programs allowed within this issue paper from what is permitted as effective hedges under SSAP No. 86, U.S. GAAP and IFRS. This issue paper reflects the conclusion that the accounting provisions within are separate and distinct from the provisions within SSAP No. 86 and should not be inferred to any derivative transaction that does not explicitly qualify within the scope of this issue paper.

Hedge Strategy

36. The guidance within this issue paper requires reporting entities to engage in highly effective fair value hedges that follow a Clearly Defined Hedging Strategy (CDHS or "hedging strategy") as defined in VM-21. The documentation required under a CDHS includes:

a. The specific risks being hedged,

b. The hedge objectives,

c. The risks not being hedged,

d. The financial instruments that will be used to hedge the risks,

e. The hedge trading rules, including the permitted tolerances from hedging objectives,

f. The metric(s) for measuring effectiveness,

g. The criteria that will be used to measure effectiveness,

h. The frequency of measuring hedging effectiveness,

i. The condition under which hedging will not take place, and

j. The person or persons responsible for implementing the hedging strategy.

37. While the hedging strategy may change over time, this issue paper requires each hedging strategy to be implemented for a minimum of three months, with notification to the domiciliary state when there is a change in hedging strategy. The provisions in VM-21 also require the hedging strategy to be effectively implemented for at least three months. As detailed in VM-21, reporting entities can meet the time

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requirement by having evaluated the effective implementation of the hedging strategy for at least three months without actually having executed any trades indicated by the hedging strategy (e.g., mock testing or by having effectively implemented the strategy with similar annuity products for at least three months). For purposes of this issue paper, the three month time-frame is the required timeframe before a change can occur in the documented hedging strategy without an inherent determination that the hedging strategies, and the derivatives within, were not highly effective (ineffective).

38. Any change in the hedging strategy shall be clearly documented and include an effective date of the change in strategy. Determination of whether the hedging instruments were highly effective shall be made in accordance with the hedging strategy in place at the time of assessment.

39. Comments initially received identified that most companies identify a target rate sensitivity and purchase interest rate derivatives that will hedge exposure to this target. These comments noted that the target can change with changes in risk appetite and suggested a monthly reset to reflect changes in risk appetite. These comments indicated that regardless of changes in the risk appetite that may occur throughout each month, the hedging strategy would be locked at the beginning of each month. Per these comments, the monthly reset of the overall hedging strategy would not trigger ineffectiveness as long as subsequent cash flows were considered effective under the updated hedging strategy. These comments suggested that reporting entities should be required to specify the operational practices in setting or determining hedging strategies to allow for these changes. After considering these comments, the Working Group disagreed with the request to allow for a "monthly" reset of the hedge program, noting that such an element would be too permissive in determining effectiveness, particularly when coupled with provisions that allow flexible portfolios and dynamic hedges.

40. Subsequent to the initial comments, additional comments were received noting the need to differentiate between changes in hedge targets and changes in an entity's hedging strategy. These comments identified that a "hedging strategy" is the collection of multiple elements, including risks being hedged, objectives, hedging instruments used and effectiveness measurements. Within a hedging strategy, the comments indicated that it may be necessary and appropriate to adjust the hedge target in response to changing market conditions, liability changes and other factors.

41. For the special accounting provisions in this issue paper, provisions have not been established to allow for a monthly reset of hedging strategies, or for changes in hedge targets to be considered separately from a change in hedge strategy. Instead, hedging strategies (including the hedge targets in those strategies) are required to be implemented for at least three months. As detailed within the issue paper, reporting entities are allowed to engage in a dynamic hedging strategy in which the hedging instruments may be rebalanced to accommodate changes in the hedged item (which reflects a flexible portfolio of variable annuity contracts) to adhere to a specified, documented derivative strategy. With these provisions, it seems unnecessary, and overly permissive, to incorporate provisions that allow monthly revisions and/or changes in the hedge target that are not considered changes to the hedging strategy. A three-month hedge strategy implementation timeframe still allows for timely revisions throughout a year if a company's risk appetite was to change and is consistent with VM-21 provisions. In situations in which the hedging strategy must be revised to reflect a revised risk appetite before the three-month implementation timeframe is over, the hedge should be terminated, and deemed ineffective, with subsequent establishment of a new hedging strategy to reflect the updated risk appetite and parameters for assessing hedge effectiveness.

Hedge Designation - Fair Value Hedge Addressing Variability Attributed to Interest Rate Risk

42. The guidance within this issue paper limits the hedge designation to a fair value hedge that addresses variable annuity guarantees sensitive to interest rate risk. Although variable annuity guarantees can be sensitive to other market factors, the guidance in this issue paper is only limited to interest rate risk. This issue paper acknowledges that the initial interest rate risk limitation was a scoping consideration (and not a result from a review of other risk factors) and should not preclude subsequent consideration, if supported by the Working Group, of other risks. Unless, and until, subsequent consideration of other risks

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are considered for inclusion within this guidance, hedges addressing other risks are subject to the guidance in SSAP No. 86.

43. The requirement for a fair value hedge is specific within the proposed guidance and requires assessment on whether the derivative instrument hedges changes in the fair value of hedged item (VM-21 liability or specific portion thereof) attributable to interest rate risk. In determining effectiveness, the hedging relationship shall be highly effective in offsetting changes in the fair value attributable to the hedge risk during the period in which the hedge is designated. The term highly effective describes a fair value hedging relationship where the change in fair value of the derivative hedging instrument is within 80 to 125 percent of the opposite change in the fair value of the hedged item attributable to the hedged risk. It shall also apply when an R-squared of 0.80 or higher is achieved when using a regression analysis technique.

44. The use of a fair value hedge detailed within this issue paper is intended to allow for hedging relationships that consider all relevant[17] contractual cash flows in calculating the change in fair value, or if in accordance with the documented risk management hedging strategy, a designated portion of the relevant contractual cash flows from the hedged item. This is inconsistent with existing guidance in SSAP No. 86 (as well as derivative guidance under U.S. GAAP) in which all contractual cash flows of the entire hedged item must be used in calculating the change in the hedged item's fair value attributed to changes in the benchmark interest rate. However, as noted by comments received, designating a portion of the cash flows as the hedged item is crucial; otherwise effectiveness may be compromised as fair value changes in cash flows from designated instruments may be more or less than the fair value changes in cash flows from the hedged item. Revisions in the designated portion of cash flows intended to be hedged in accordance with the documented risk management hedging strategy would be considered a change in hedging strategy and subject to the guidance in this issue paper for those situations. Both SSAP No. 86 and U.S. GAAP allow designation of a specific portion of an asset or liability to be the hedged item. However, once designated, all contractual cash flows related to that specified portion must be considered in calculating the change in the hedged item's fair value attributed to changes in the benchmark interest rate being hedged to determine hedge effectiveness. Pursuant to the provisions within this issue paper, in addition to the designated portion of a specified liability, specific contractual cash flows of that explicit portion are also permitted to be designated.

45. Under SSAP No. 86 and U.S. GAAP, hedge designations are required to be static and are not permitted to be revised over the hedge term. With the provisions in this issue paper, changes are not permitted unless, and until, the reporting entity documents a new hedging strategy. Unless there is a change in hedging strategy, subsequent assessments of effectiveness shall be consistent with the originally documented risk management strategy, and the designated portion of cash flows, for the hedged item. Fair value gains or losses on the derivative instrument that do not offset the change in the fair value of the hedged item attributable to the hedged risk, as detailed within the hedging strategy, are considered ineffective elements of the hedge, and depending on the degree of ineffectiveness could trigger assessment that the entire hedge is ineffective.

46. Despite comments initially received supporting use of a cash flow hedge approach, the general nature of the hedging strategies employed for these variable annuity contracts are more representative of a fair value hedge. However, as the hedged item (VM-21 reserve) is not reported at fair value, these hedging strategies do not qualify as a fair value hedge. Based on information received, reporting entities already calculate the fair value for the VM-21 reserve and use the fair value changes in the hedged item and hedging instruments to determine hedge effectiveness. Rather than pursue the cash flow hedge designation, this issue paper has been prepared to follow the method that is intuitively applied, although the standard requirements to qualify for a fair value hedge are not met. (As the hedged item is recognized at an amount

[17] The change in fair value of the hedging instruments and hedged item is limited to changes driven by market factors. For example, periodic recognition of a cost owed to acquire the derivative from a counterparty (financing cost) shall not be captured as a change in the derivative instrument's fair value. The fair value of the instrument shall be determined based on the underlying derivative without inclusion of acquisition costs (or other such contractual elements that may exist with the counterparty) that do not change based on the underlying derivative interests or market factors.

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other than fair value (VM-21 reserve calculation), changes in the fair value of the hedged item do not immediately adjust the reported amount for the VM-21 reserve for the fair value change, and are not recognized currently in earnings.)

Hedged Item - Flexible Portfolio or Closed Portfolio

47. The guidance within this issue paper proposes use of a flexible portfolio as the hedged item, reflecting the possibility to include variable annuity contracts with different characteristics and different liability durations (macro-hedge). The designated portfolio would not be required to be static in a closed portfolio, but could be revised to remove policies and/or include new policies to allow for continuous risk management of the variable annuity guarantee reserves.

48. The use of a flexible portfolio approach, rather than a closed portfolio approach, reflects consideration of industry comments regarding the current aggregate approach for risk-management strategies. Furthermore, consideration was given to comments indicating that the required use of a closed portfolio approach would be operationally burdensome in accordance with documentation requirements and assessments of hedge effectiveness. Key elements noted by industry included:

a. Open or flexible portfolio is imperative as the liability changes on a daily basis with changes to inforce business and capital market factors. Requiring the redesignation of a hedge relationship due to any change in the hedged item is operationally burdensome as new hedge documentation and assessments of effectiveness would be required frequently.

b. A portfolio approach based on guarantee duration could result in an exorbitant amount of hedge relationships that become difficult to maintain. Sensitivity and risk profile can vary from policy to policy and within a policy by performance of the separate account underlying it. Combining policies by duration at inception of the hedge relationship is arbitrary.

c. Multiple portfolio approach is challenging as most risk management strategies hedge at an aggregate level to capture the diversification inherent in the business. Additionally, a closed portfolio approach would require segmentation of the VM-21 calculation. As VM-21 was designed to be an aggregate projection of liabilities and assets of all variable annuity policies in force, the VM-21 calculation includes inherent diversification. The sum of a segmented VM-21 does not necessarily equal the calculation at an aggregate level and could result in entities holding greater reserves than necessary by a material amount.

49. The IASB also has a project to consider a new accounting model for dynamic risk management. This project was driven from difficulties associated with applying existing hedge accounting requirements to a dynamically managed portfolio with continuous frequent changes in the risk positions that are hedged. Within this IASB project, the IASB identifies that under current hedge accounting guidelines, open portfolios are in effect forced into closed portfolios for hedge accounting purposes, and this practice makes it difficult to reflect dynamic risk management in the financial statements.

50. Moving towards a flexible portfolio approach is intended to better reflect the key features of dynamic risk management. As detailed in the IASB discussion paper and the related April 2014 *IFRS in Focus (*Deloitte),[18] when derivatives are used to hedge risks which are not measured on the same basis (i.e., hedged item and hedging instruments both measured and reported at fair value with fair value fluctuations recognized as unrealized gains or losses), volatility arises, despite the risk management objective of reducing economic volatility. Hedge accounting helps to reduce this volatility; however, hedge accounting is not well suited to the hedging of dynamic portfolios. Hedge accounting requires the specific designation of hedged items and hedging instruments and requires specific mechanics and effectiveness testing to be

[18] Deloitte: *IFRS in Focus - IASB Issues Macro Hedging Discussion Paper*, April 2014

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performed. Such requirements are better suited to individual hedges or hedges of static groups of items (closed portfolios) rather than hedges of portfolios that are constantly changing with new exposures added and old exposures removed (open or dynamic portfolios) and where the portfolio of hedging derivatives is also frequently changing.

51. Consistent with issues identified by the IASB, the use of closed portfolios, following the general hedge accounting model, gives rise to various issues, including:

a. Treating open portfolios as a series of closed portfolio hedges inevitably leads to profit or loss volatility from hedge ineffectiveness that is inconsistent with the economic position and reflective of the dynamic risk management applied.

b. As the portfolio of hedged items and hedging instruments change, hedge accounting leads to frequent de-designations and re-designations which give rise to operational difficulties regarding tracking and amortization of hedge adjustments.

52. In the original agenda item, use of a closed portfolio approach was suggested as an ever-changing portfolio of variable annuity contracts would be difficult for regulators to actively review and assess for hedge effectiveness compliance. Additionally, there was concern that allowing for a variable portfolio, particularly if coupled with a flexible hedging instrument, could allow for companies to "control" the hedge effectiveness by adjusting both the hedged item and the hedging instruments. Although these concerns still exist, provisions within the issue paper have been included to incorporate a higher degree of review and approval for these derivative transactions. Particularly, provisions have been incorporated to require explicit approval from the domiciliary state prior to implementing a hedging program within scope of this guidance, and the guidance requires certifications from both an actuary and a financial officer of the company on the use and impact of the hedging strategy on VM-21 reserves.

53. In reviewing the comments from industry as well as the discussion elements supporting the IASB project, a closed portfolio approach may not be successful in encouraging further risk-management transactions by insurers. The operational burden in applying the concepts of closed portfolios would likely limit the general application of the special accounting provisions being considered, further perpetuating concerns that existing accounting guidance may hinder insurers from engaging in appropriate risk-management activities.

Hedging Instrument - Dynamic Hedging Strategy (Rebalancing)

54. The provisions within this issue paper permits reporting entities to utilize a specified derivative, or a portfolio of specified derivatives, as the hedging instrument. The portfolio of derivatives is allowed to be rebalanced in accordance with changes in the hedged item to adhere to a specified derivative strategy. The ability to rebalance derivatives designated as the hedging instrument is supported from comments identifying that dynamic hedging is a prevalent industry practice and widely accepted as an appropriate risk management technique. Commenters noted that a dynamic hedging strategy rebalances derivative portfolios to result in a targeted market sensitivity and is not a result of a flawed hedge. Irrespective of one open or multiple closed hedged items, a dynamic instrument is fundamental in applying adequate risk management measures for variable annuities as the sensitivity changes over time and life of the policies. Comments indicated that designating one static pool at inception could result in significant hedge accounting and economic ineffectiveness, and highlighted that the instruments used to hedge a liability with a changing risk profile must be flexible.

55. Although some commenters indicated that the guidance in SSAP No. 86 supports the concept of dynamic hedging (rebalancing of hedging instruments), NAIC staff does not believe that interpretation is consistent with the intent of SSAP No. 86, nor is that interpretation consistent with derivative guidance under U.S. GAAP or IFRS. Pursuant to U.S. GAAP derivative guidance, separate financial instruments shall not be combined, and evaluated as a unit, unless two more derivative instruments in combination are

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jointly designated as the hedging instrument. As previously noted, guidance in SSAP No. 86, as well as U.S. GAAP and IFRS, are designed primarily for static exposures in which it is necessary to identify a specific hedged item and hedging instrument (including a unit of combined instruments), and designate them as linked in an individual hedging relationship.

Hedging Criteria – Assessment of Effectiveness

56. Although the provisions within this issue paper incorporate new concepts for what is allowed as the hedged item and the hedging instrument, and incorporates a specific approach to determine hedge effectiveness, the concept of whether a fair value hedge is effective – and whether the hedging relationship achieves offsetting changes in fair value – is consistent with concepts established in SSAP No. 86 (as well as U.S. GAAP and IFRS) for assessing effectiveness. Key provisions include:

a. Use of a specified method that will be used to assess hedge effectiveness at inception and on an ongoing basis, requiring hedge effectiveness assessments whenever financial statements are reported, with a minimum requirement of every three months. As detailed in the issue paper, in order to determine hedge effectiveness, reporting entities must calculate the fair value of the hedged item (portion of VM-21 reserve liability) at inception and on an ongoing basis, and compare the current period fair value change of the hedged item to the current period fair value change of the hedging instruments. This comparison is specific to the designated hedged risks and exposures, therefore, if only a portion of the interest rate risk is hedged or if the designated hedge only include specific components of the variable annuity policies (e.g., riders), for determining hedge effectiveness, the fair value comparisons is limited to those designated items. The change in fair value of the hedging instruments and hedged item is limited to changes driven by market factors. For example, periodic recognition of a cost over time to acquire the derivative from a counterparty (financing cost) shall not be captured as a change in the derivative instrument's fair value. The fair value of the instrument shall be determined based on the underlying derivative without inclusion of acquisition costs or other such contractual elements that may exist with the counterparty) that do not change based on the underlying derivative interests or market factors.

b. Documentation is required for both prospective and retrospective effectiveness assessment, with ongoing assessment consistent with the documented risk management strategy in effect at the time of assessment. (Changes from the original hedging strategy are permitted in accordance with this issue paper.)

c. A highly effective hedging relationship is one where the change in fair value is within 80 to 125 percent of the opposite change in fair value of the hedged item attributed to the hedged risk. A highly effective hedge also exists when an R-squared of .80 or higher is achieved when using a regression analysis.

57. Unlike the guidance in SSAP No. 86 (as well as U.S. GAAP), the guidance within this issue paper does not allow reporting entities to determine how they will assess hedge effectiveness. Rather, this issue paper specifies a particular approach for assessing whether the hedging strategy is highly effective, and in measuring hedge effectiveness. The hedging relationship is expected to be highly effective in achieving offsetting changes in fair value attributed to the hedged risk between the hedged item and the hedging instrument during the period that the hedge is designated. With the dynamic/rebalancing approach detailed within this issue paper, an individual hedging instrument is considered to be part of the effective hedge if the entire portfolio of hedging instruments achieves offsetting changes in fair value during the period in accordance with the hedging strategy. Rebalancing individual hedging instruments within a portfolio does not result with an ineffective assessment as long as the entire hedging instrument (portfolio) continues to meet the hedge effectiveness requirements under the documented hedging strategy.

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58. As a continued GAAP to SAP difference, the requirements in this issue paper do not require reporting entities to separately report in the financial statements the ineffective portion of a highly-effective hedging transaction. For U.S. GAAP filers, in all instances, the actual measurement of cash flow hedge ineffectiveness is to be recognized in earnings each reporting period. The recognition of ineffectiveness is based on whether exact offset of cash flows is not achieved. This issue paper does not require measurement or disclosure of any ineffective part of the hedge.

Measurement of Open/Outstanding Derivative Instruments Hedging Criteria

59. This issue paper requires all derivative hedging instruments to be reported at fair value. Derivative instruments combined in a portfolio are also required to be separately reported at fair value. Although this is a measurement change from derivatives in effective hedges under SSAP No. 86, the fair value measurement approach is consistent with U.S. GAAP and IFRS. The FASB has identified that fair value is the only relevant measurement attribute for derivatives. Furthermore, the FASB has specifically identified that amortized cost is not a relevant measurement because the historical cost of a derivative is often zero, yet a derivative can be settled or sold at any time for an amount equivalent to its fair value. The FASB reasoning supporting "held to maturity" instruments being held at amortized cost was noted as not suitable for derivatives.

60. The requirement to use fair value under this special accounting provision is a change from SSAP No. 86 for derivatives that qualify as effective hedges. This change is appropriate under this accounting guidance for the following reasons:

a. Fair value fluctuations in hedging instruments attributable to the hedged risk that offset changes in the VM-21 liability shall be recognized as realized gains and losses. These offsets result in a neutral financial statement impact, with the financial statements reflecting the impact of the effective hedge. This offset is only possible under a fair value measurement method in which fair value fluctuations are reflected in the financial statements. Under an amortized cost measurement method, fair value fluctuations are not recognized in the financial statements. Although the fair value change in an open derivative instrument would normally be considered an unrealized change, to avoid a statutory accounting disconnect in recognition between derivative changes and the changes in the VM-21 reserve, offsetting fair value changes will be recognized as realized changes. This is also consistent with U.S. GAAP, as offsetting changes in hedged items and hedging instruments are concurrently recognized in earnings.

b. Provisions are established to allow for the recognition of a "deferred asset" or "deferred liability" for the portion of the fair value fluctuations of the derivative instrument, attributed to the hedged risk, that do not immediately offset the changes in the VM-21 liability. The recognition of these gains/losses as balance sheet items negates the surplus volatility from the non-offsetting fair value fluctuations. (As discussed in paragraph 60.a. offsetting positions to the changes in the VM-21 liability are recognized as realized gains and losses.) As previously discussed, the change in fair value of the hedging instruments is limited to changes driven by market factors. This issue paper does not allow deferred derivative acquisition costs (financing costs), or other such contractual costs with the derivative counterparty that are not impacted by underlying derivative interests, or market changes, to impact the fair value of the derivative instrument when determining the offset to the VM-21 reserve or the resulting deferred asset or deferred liability.

c. Use of fair value will result with consistent measurement methods for derivatives between SAP and U.S. GAAP. Additionally, the reporting of fair value and the development of the deferred assets and deferred liabilities will clearly present derivative positions under this special accounting provision. This is particularly important for instances in which gains

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and losses from expired derivatives are not immediately reflected in the financial statements, but are scheduled for amortization.

61. The provisions within this issue paper permitting recognition of a "deferred asset" and a "deferred liability" to reflect the non-offsetting portion of fair value fluctuations attributed to the hedged risk is inconsistent with U.S. GAAP derivative guidance, as well as the general definitions for what constitutes an asset or liability under both SAP and U.S. GAAP. Gains and losses resulting from changes in the fair value of derivatives are not separate assets or liabilities because they have none of the essential characteristics of assets or liabilities. As noted by the FASB, the act of designating a derivative as a hedging instrument does not convert a subsequent loss or gain into an asset of a liability. A loss is not an asset because there is no future benefit associated with it. The loss cannot be exchanged for cash, a financial asset, or a nonfinancial asset used to produce something of value, or used to settle liabilities. Similarly, a gain is not a liability because no obligation exists to sacrifice assets in the future.

62. The reporting of derivative gains and losses from effective hedges as assets or liabilities is not new under statutory accounting. Currently, in SSAP No. 86, upon the sale, maturity, or other closing transaction of a derivative, which is an effective hedge, any gain or loss on the transaction will adjust the basis (or proceeds) of the hedged item(s) individually or in the aggregate. This "adjustment to the basis of the hedged item" is, in effect, the recognition of derivative losses or gains as assets or liabilities. Although these provisions exist in SSAP No. 86, the impact is not easily identifiable in the assets or liabilities reported on the financial statements. With the exception of impairment assessments for the hedged item (pursuant to the SSAP in which the hedged item falls), increases in an asset basis of a hedged item as a result of derivative losses are not restricted, nor are they explicitly nonadmitted.

63. SSAP No. 86 also provides an alternative treatment whereas if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and subject to IMR. This alternative approach also reflects the recognition of a balance sheet impact (increase or decrease in liabilities) for realized gains and losses that do not meet the definition of assets or liabilities. For IMR items, losses recognized from derivative instruments reduce the IMR liability, whereas gains from derivative instruments increase the IMR liability. With the provisions established for IMR, safeguards are in place to prevent recognition of a contra-liability (or asset) for realized losses that exceed realized gains. If realized losses exceed the IMR liability, resulting with a negative liability balance, the IMR liability is required to be shown as zero. A negative liability for IMR is not permitted to be reflected in the financial statements.

64. Although statutory accounting does not generally support the recognition of balance sheet items that do not meet the definitions of assets or liabilities, the guidance proposed in this issue paper is supported for the following reasons:

a. The process to recognize the fair value of derivative instruments, coupled with the recognition of "deferred assets" and "deferred liabilities" (reflecting non-offsetting gains and losses attributed to the hedged risk), provides a comprehensive view of the derivative impact in the balance sheet. With this approach, the derivative is reported at fair value, but the non-economic volatility from market fluctuations (the fair value change) does not impact the entity's solvency presentation.

For example, a derivative acquired at zero cost currently in a liability position from fair value fluctuations will be reported as a derivative liability in the financial statements. The unrealized loss from fair value fluctuations attributed to the hedged risk, which were not recognized as they did not offset VM-21 reserve changes, will be shown as a deferred asset. This deferred asset would be admitted, although it does not meet the definition of an asset, or the concept of an admitted asset under *SSAP No. 4—Assets and Nonadmitted Assets*, as it does not reflect a probable future benefit or something that would be available for policyholder benefits. However, by reporting both the derivative liability and the deferred asset,

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non-economic volatility in the financial statements is mitigated, while improving presentation as the derivative obligation (derivative liability) will be presented in the financial statements. In addition, under the narrow scope of this issue paper, it is important to consider accounting that captures what is relevant and a faithful representation of the business model of variable annuity life insurers, who as indicated elsewhere within this issue paper, utilize dynamic hedging as a risk management technique that if determined to be highly effective under the requirements of this issue paper, reduces risk, and helps the industry as a whole to better serve the marketplace. Under current guidance, using an amortized cost approach, the derivative would be reported at zero, and would not be adjusted for fair value fluctuations, therefore the liability position of the derivative would not be shown in the financial statements.

b. Recognizing derivatives at fair value is consistent with the U.S. GAAP guidance for reporting derivatives, therefore eliminating the GAAP or SAP difference on the reporting of these investments.

c. The recognition of "deferred assets" and "deferred liabilities" and the separate amortization of these balances, outside of IMR, prevents the application of this special accounting provision from diluting or impacting the recognition of IMR. Pursuant to *SSAP No. 7—Asset Valuation Reserves and Interest Maintenance Reserve*, IMR defers recognition of realized capital gains and losses resulting from changes in the general level of interest rates. As the recognition of deferred assets and deferred liabilities proposed within this issue paper would traditionally reflect unrealized gains or losses, (and then realized gains and losses once the derivative instrument expired), using a separate amortization process of these items, and not commingling these items with IMR, retains the original intent of IMR. Under the proposed guidance within this issue paper, the recognition of gain/loss will occur with amortization of the deferred assets/deferred liabilities, and will not be subject to further deferral to IMR.

d. With the recognition of deferred assets and deferred liabilities, this issue paper requires reporting entities to allocate to special surplus an amount equal to the net deferred asset/liability recognized under this special accounting guidance. This allocation highlights the overall financial statement impact of the deferred assets/liabilities in the financial statements, and in some states, may reduce the likelihood of dividends being paid as a result of an increase in "assets" that actually represent unrecognized losses. This reporting also provides enhanced transparency to the magnitude of these transactions and overall financial statement impact, and assists in determining if a need exists for the state to hire an outside specialist to assess the overall program.

65. The guidance in this issue paper is focused on the accounting guidance for the derivative instruments that hedges a VM-21 liability, not the impact that a Clearly Defined Hedging Strategy under the provisions of VM-21 can have on the recognized VM-21 liability. One question that arose during the development of this issue paper was whether there was any double counting of the impact of the hedge that would be recorded under this proposed issue paper and what would be recorded as part of the VM-21 liability. It was determined this was not a material issue as the amount of credit given to a hedge (the asset to the company under this proposed accounting) under VM-21 is significantly muted by the mechanics and in fact may work to the detriment of the company in VM-21 but is not considered to be material.

Amortization of Deferred Assets and Deferred Liabilities – Effective Hedging Programs

66. This issue paper requires that deferred assets and deferred liabilities from non-expired derivative contracts be amortized using a straight-line method into realized gains and losses over a finite amortization period. The amortization period shall equal the Macaulay duration of the guarantee benefit cash flows based

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on the VM-21 Standard Scenario, but shall not exceed a period of 10-years. The Macaulay duration provides a weighted average length of time of the guarantee cash flows and appropriately varies by company, block and aggregation of business in force. The Macaulay duration appropriate links the amortization to the VM-21 liability and supports the goal of reducing non-economic volatility in the statutory financial statements resulting from accounting mismatches between variable annuity reserves and related hedges.

67. Although some industry commenters did not support in concept a maximum amortization period, and suggested amortization periods in excess of 10-years (20 and 25 years), the Working Group agreed to limit the deferred asset/liability amortization timeframe to 10 years. In deciding the 10-year timeframe, the Working Group noted that deferred assets/liabilities do not meet the definition of actual assets or liabilities, and the recognized "assets" (which are deferred losses) do not satisfy statutory accounting criteria for admitted assets as they do not reflect amounts that can be used to satisfy policyholder claims. Furthermore, it was identified that the impact from the application of this special accounting guidance could be material in the financial statements and could significantly impact the review and financial solvency assessment of a company. The Working Group also noted that the longer the amortization period, the longer unrecognized losses (reported as assets) are delayed from recognition. Additionally, under the issue paper provisions, as long as the hedge program is effective, derivative losses may continue to be reported as deferred assets even after the derivative instrument generating the loss has matured, sold or disposed. By limiting the amortization timeframe, the scheduling process is anticipated to be manageable, allowing for more effective regulator review.

68. The 10-year timeframe is an increase to the original proposal which would have required a standard 5-year amortization timeframe for deferred assets/liabilities. Under that proposal, the 5-year timeframe would have been required unless a company was able to adequately demonstrate a linkage to the expected VM-21 liability, and if that was demonstrated the company would have been permitted to extend the amortization to 10-years. The original 5-year timeframe was suggested from certain industry representatives, who noted it was a significant improvement to the fair value accounting approach in SSAP No. 86, where the derivative fair value fluctuations are recognized as they occur.

69. This issue paper also allows for reporting entities to accelerate amortization or terminate use of the special accounting provision at any time. With this provision, specific guidance has been included to ensure that deferred assets and deferred liabilities are recognized in an equitable manner in the financial statements. This guidance was added in response to comments supporting the ability to accelerate amortization, but to prevent interpretations allowing amortization of only deferred assets or deferred liabilities. These comments noted concern with the opportunity to elect provisions inequitably between deferred assets and deferred liabilities, as those elections could occur to improve the financial results of the reporting entity. The comments supported acceleration that is applied proportionately between deferred assets and deferred liabilities in order to ensure that amortization is aligned with the overall hedge relationship.

a. Under the guidance, reporting entities are required to accelerate amortization equally between deferred assets and deferred liabilities within a single hedging strategy. This guidance prevents a reporting entity from electing to accelerate amortization of the deferred liabilities (recognizing the gains from fair value changes) without also accelerating amortization of the deferred assets (continuing to defer losses from fair value changes). If a reporting entity was allowed to only accelerate deferred liabilities, the reporting entity would have the opportunity to improve the presentation of their financial position by choosing to recognize gains, but continuing to defer losses (reported as assets). If a single hedging strategy only reflects deferred assets or deferred liabilities, the reporting entity is permitted to accelerate amortization without restrictions.

b. If a reporting entity has more than one hedging strategy, and the strategies have offsetting net positions (both deferred assets and deferred liabilities are recognized in the financial statements), a reporting entity's election to accelerate amortization must be applied

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consistently to programs with offsetting net positions. In these situations, the other provisions for acceleration are also applicable, whereas, the accelerated amortization must also apply equally to the deferred assets and deferred liabilities within each individual hedging program. If a reporting entity with more than one hedging strategy only has net deferred assets or net deferred liabilities recognized, the reporting entity is permitted to accelerate amortization to a single program under the guidelines in paragraph 69.a.

70. The intent of the guidance in paragraph 69.b is to ensure that the elections to accelerate amortization are not one-sided approaches that result in favorable financial statement presentation.

Amortization of Deferred Assets and Deferred Liabilities – Terminated or Ineffective Programs

71. This issue paper provides guidance addressing the treatment of deferred assets and deferred liabilities, initially recognized under qualifying programs, when the hedging program no longer qualifies under the standard, no longer is identified as a highly effective hedge, or that has been terminated by the reporting entity. Pursuant to this guidance, in order to avoid an immediate impact to surplus for the full deferred asset/deferred liability recognized, provisions have been established to allow reporting entities to continue amortizing the deferred assets and deferred liabilities over the remaining amortization period, not to exceed five years. If the remaining amortization period exceeds the five-year timeframe, the amortization schedule shall be revised to require full amortization within the shortened time period. The guidance also allows reporting entities to elect to accelerate amortization, however, the provisions for equal accelerated amortization for qualifying, highly effective programs also applies.

72. The decision to allow for a shortened amortization timeframe for these programs is a compromise position that considered the underlying nature of the deferred assets/liabilities (unrecognized gains and losses from fair value fluctuations) as well as the financial statement impact that could occur with an immediate recognition to surplus. Although comments received supported continued amortization under the original established schedule, the Working Group noted that the continuation of the originally scheduled amortization of deferred assets/liabilities for these programs in inappropriate, as these items do not meet the definition of assets and liabilities and cannot be used for policyholder claims. The ability to recognize deferred assets and liabilities was based on the concept that the hedging program was effective, and the volatility mismatch was due to differing accounting measurements between the hedged item and the hedging instruments in the effective hedge. Once a program is no longer highly effective, the continued long-term deferral of the unrealized gains and losses from the hedging derivative instruments can no longer be supported. This is particularly true for an expired derivative instrument that has resulted in a loss (deferred asset). For expired derivatives the loss has actually been incurred to the reporting entity, as it has been "realized" (settled with the counterparty) and there is no potential for that derivative loss to be reversed.

73. In establishing the compromise position, the Statutory Accounting Principles (E) Working Group sent a referral in April 2017, to the Variable Annuity Issues (E) Working Group inquiring whether there is a future benefit of effective hedges offsetting a variable annuity reserve once the effective hedging program has been discontinued or becomes ineffective. This referral noted the key issue of whether the deferred assets (unrecognized losses) from previous fair value fluctuations of derivative instruments – recognized when the overall hedge strategy was in place and effective – should be perceived to offset future reserve changes even when the overall hedging strategy has been terminated or is ineffective. This referral recognized that the unrecognized losses (deferred assets) are likely going to be significant, and identified the industry concern if immediate recognition in the financial statements was required. The referral also identified that if the special accounting provisions were not established or followed, the statutory accounting provisions in SSAP No. 86, would require recognition of the hedging instruments at fair value, with changes in fair value recognized as unrealized gains or losses as incurred.

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74. In August 2017, the Variable Annuities Issues (E) Working Group provided a referral response to the Statutory Accounting Principles (E) Working Group. This response suggested the compromise position – allowing for a maximum 5-year amortization timeframe – with inclusion of detailed disclosures to allow the regulators to consider the information in their ongoing monitoring of the reporting entity's financial condition. With this referral response, it was identified that members of the Variable Annuity Issues (E) Working Group expressed no willingness to support the ACLI suggestion that the amortization schedule should continue as if the hedging program was still in place and highly effective. This referral response also provided the following detail regarding the compromise position:

> The regulatory position and therefore question is driven by the concern that a regulator would have as the result of an unrecognized loss on an ineffective overall hedging strategy or one that has been disposed. More specifically, during a market uptick, when the customer base of the insurer can become disinterested with the variable annuity product. Under these circumstances the liability cash flows are mostly fees that were going to materialize on the balance sheet under the original policyholder behavior assumptions and with above expectation lapse no longer will do so to the extent previously expected. The deferral of the loss recognition was meant to make the loss recognition coincide with the fee revenue recognition. If policies lapse, so too will the future profits. However, 100% recognition of any derivatives that are currently in a loss position would be inconsistent with the remaining reduced cash flows that do materialize. This lapse effect could also materialize in idiosyncratic insurer distress scenarios even though such scenarios are relatively unlikely as they would have to occur under very favorable capital markets conditions for there to be a deferred hedge loss asset.

Rebalanced/Expired Derivative Instruments

75. With the ability to rebalance derivative hedging instruments, this issue paper allows for individual derivative instruments to be removed from the portfolio, and/or expire, and not immediately result with an ineffective hedging assessment. Comments received indicate that this approach is consistent with guidance under SSAP No. 86, as gains and losses are either allowed to be an adjustment to the hedged item, or are realized and included in IMR. However, the guidance in this issue paper allows for derivatives to be removed from the hedging strategy and not be identified as an ineffective hedge. This concept is not supported by the existing guidance within SSAP No. 86.

76. The provisions within this issue paper is only intended to encompass situations in which the overall hedging strategy is highly effective at the time that the derivative is either removed from the portfolio of hedging instruments or expires. If the hedging strategy is highly effective at that time, then regardless of future determination of effectiveness, the deferred assets or deferred liabilities recognized for the derivative instrument will continue to be amortized under the remaining amortization scheduled established when the hedge was deemed highly effective.

77. For derivatives that have not expired, but were removed from the portfolio of hedging instruments, subsequent gains and losses from fair value fluctuations shall not impact the previously recognized deferred assets or deferred liabilities but shall be recognized directly as unrealized gains and losses. With this approach, the gains or losses identified when the derivative was part of the effective portfolio, reflected as deferred assets or liabilities, will be "locked in" once the derivative is removed from the portfolio of hedging instruments.

Measurement/Recognition of Realized and Unrealized Gains and Losses

78. The provisions within this issue paper identifying recognition through realized or unrealized gains or losses has been specifically determined for the hedge accounting programs in scope. These provisions are not consistent with the "standard" allocation between realized and unrealized that occurs under statutory accounting principles.

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a. Under traditional statutory accounting concepts, fair value fluctuations for "open" instruments held by a reporting entity are recognized as unrealized (directly to surplus) as the fair value change could reverse in subsequent periods. Once an instrument is sold, matured, terminated, etc., the unrealized gain or loss would be recognized as a realized gain or loss (impacting net income).

b. With the traditional statutory approach, there would be a statutory disconnect between how derivative gains and losses for outstanding instruments would be recognized (unrealized to surplus) in comparison to the VM-21 reserve change (change to net income). Although this disconnect occurs under SSAP No. 86, the disconnect does not occur under U.S. GAAP. Under U.S. GAAP, offsetting fair value changes in hedged items and hedging instruments are concurrently reflected in earnings.

79. Although the recognition of the fair value fluctuations as an unrealized or realized impact does not impact overall surplus, by stipulating that the fair value fluctuation that offsets the reserve change should be recognized as a realized change, the impact of the highly effective derivative relationship is reflected in the same reporting line (net income). By reporting in the same line (and not split between net income and surplus), an improved financial statement presentation illustrating the impact of the derivative is provided.

80. In addition to the improved presentation on the Summary of Operations, by requiring all fair value fluctuations attributable to the hedged risk to be recognized as a realized impact (regardless if the derivative instrument is open), it eliminates concerns with tracking and reclassifying fair value fluctuations (from unrealized to realized) when a derivative instrument is removed from a portfolio of hedging instruments either due to rebalancing efforts, or because the derivative has matured.

81. Pursuant to the guidance reflected in the issue paper, the following concepts are intended to be followed when allocating between unrealized and realized gain/loss recognition:

a. Realized: Fair value fluctuations in the hedging instruments attributable to the hedged risk that offset the current period change in the hedged item.

b. Realized: Amortization of fair value fluctuations in open or expired hedging instruments attributed to the hedged item that were recognized as deferred assets or deferred liabilities for a hedging program that continues to qualify under the standard.

c. Realized: Amortization of fair value fluctuations from expired hedging instruments attributed to the hedged item that were recognized as deferred assets or deferred liabilities for a hedging program that no longer qualifies within the standard, is no longer a highly effective hedge, or is a program that has been terminated by the reporting entity.

d. Unrealized: Fair value fluctuations in open (non-expired) hedging instruments that are not attributed to the hedged risk, or are from excluded derivative instrument components.

e. Unrealized: Amortization of fair value fluctuations in open (non-expired) hedging instruments attributed to the hedged item that were recognized as deferred assets or deferred liabilities for a hedging program that no longer qualifies within the standard, is no longer a highly effective hedge, or is a program that has been terminated by the reporting entity.

Derivative Income

82. This issue paper requires that all derivative income earned for all derivative instruments within scope of this guidance shall be reported as investment income.

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83. U.S. GAAP derivative guidance is focused on income statement matching. As such, under U.S. GAAP, the "effective" portion of gains and losses on a derivative instrument is reported consistently between the hedging instrument and hedged item resulting with an exact offset to gains and losses attributed to the hedged risk. The "ineffective" portion directly affects earnings because there is no offsetting adjustment for the ineffective aspect of the gain or loss. Although the focus for statutory accounting is less on income statement matching, and more on the balance sheet impact of the hedged item and the derivative hedging instruments (reducing non-economic volatility), the gains and losses from offsetting fair values (between the derivative instrument and the hedged item) will be concurrently recognized as realized impacts, regardless if the derivative is still outstanding, to improve financial presentation in the Summary of Operations.

84. The provisions to recognize income earned is also consistent with the SSAP No. 86 guidance in situations in which the derivative is not combined with the hedged item. Pursuant to current guidance, periodic cash flows and accruals of income/expense are to be reported in a manner consistent with the hedged item, usually as net investment income or another appropriate caption within operating income. (SSAP No. 86 is drafted with an assumption that the hedged item is an asset, there is no guidance in SSAP No. 86 that reflects consideration of designating a liability as a hedged item.)

85. The cash flow guidance in SSAP No. 86 is different for situations in which the derivative is combined with the hedged item. Under that guidance, the income reported for the derivative on Schedule DB is zero, and the cash flows are to be reported with the hedged item instead of with the derivative. There are concerns with regards to this existing guidance (both in SSAP No. 86, as well as this issue paper), as income from derivative instruments would not be identifiable within the financial statements or Schedule DB. Although there is a perception that this allowance is not often elected under SSAP No. 86, with the need for clear reporting under this special accounting provision, this approach is not presented as an option within this issue paper.

86. Comments received supported continuation of the concepts in SSAP No. 86, in which changes in the carrying value or cash flow of the derivative shall be recognized in the same period and in the same category of income or surplus as the amortization or fair value changes of the hedged item; e.g., net gain from operations, realized capital gains and losses on investments, unrealized capital gains and losses on investments, or unrealized foreign exchange capital gain or loss. The comments received also identify that as cash flows from swaps are included in the calculation of the hedged item (e.g., projected within VM-21), swap income will be accrued and recorded when it is earned consistently with the hedge item. This issue paper does not reflect these comments. Rather, consideration of income shall be recognized as earned, and be included as a factor in determining the recognition of fair value fluctuations in the derivative instruments (e.g., the degree of offset between the VM-21 liability and the fair value fluctuations impacting the recognition of deferred assets and deferred liabilities). It is anticipated that this approach will not result in material differences in the financial statements, but will allow for proper recognition of income when earned.

Disclosures

87. The disclosure requirements in this issue paper are intended to result in a new schedule, along with new financial statement disclosures (data-captured) that specifically address the hedging strategies and related derivatives within this issue paper. The disclosure requirements also envision a schedule for all hedging instruments, with information regarding the cost, fair value, realized/unrealized gains and losses, deferred assets and deferred liabilities, and the amortization schedule. The intent of the proposed disclosures is to provide clear, transparent information regarding the use and impact of this special accounting provision within the financial statements.

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Effective Date and Transition - Issue Paper Discussion

88. The guidance is proposed on a prospective basis, to allow for the change to be initially effective at the beginning of the year.

89. The guidance also requires prospective application to qualifying hedge programs that are in place on or after the effective date. This prospective application does not allow reporting entities to reverse previously recognized unrealized gains/losses from derivative instrument fair value fluctuations and recognize those fluctuations as deferred assets or deferred liabilities. Hedging transactions within scope of this guidance, which were in place prior to the effective date, would not have been considered effective hedges under SSAP No. 86. As such, unless the reporting entity had a permitted or prescribed practice for alternative accounting treatment, the hedging transactions within scope of this guidance should have been accounted for under the fair value method in SSAP No. 86. Any unrealized gains or unrealized losses recognized for a derivative instrument recognized prior to the application of this standard shall continue to be reflected, adjusted for other unrealized impacts from the derivative instrument required under this standard (e.g., excluded components of the hedging derivative) until the derivative has expired.

90. In the development of the issue paper, it was identified that some reporting entities had already received permitted and prescribed practices to incorporate concepts similar to what is permitted in this issue paper. Although the issue paper does not incorporate guidance to allow those practices to be automatically captured within scope (e.g., grandfathered), consideration occurred on how those practices could be brought into the standard without reporting entities having to eliminate the results from those permitted or prescribed practices. (The immediate recognition of deferred assets and deferred liabilities as unrealized gains and unrealized losses could have a significant impact on surplus.) After this consideration, the Working Group agreed that each reporting entity shall work with their domiciliary state regulator to determine the appropriate method in transitioning from previously approved permitted practices. The reporting entity shall include disclosure of the transition approach approved by the domiciliary state in their financial statements in the first year of application. After the effective date of the adopted statement, domiciliary state provisions that differ from that adopted statement must be disclosed as a permitted or prescribed practice pursuant to SSAP No. 1.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

91. SSAP No. 86 establishes statutory accounting guidance for derivatives and hedging, income generation and replication (synthetic asset) using selected concepts from *FAS 133, Accounting for Derivative Instruments and Hedging Activities*. The concepts presented within this issue paper on what is permitted to receive "effective hedge treatment," and the accounting for derivative instruments involved in a highly effective hedge, are distinctly different from the guidance in SSAP No. 86. For example, derivative instruments involving macro-hedges and dynamic (rebalancing) hedging instruments do not qualify for effective hedge accounting recognition under SSAP No. 86.

92. As indicated throughout this issue paper, this guidance establishes statutory accounting principles to address certain, limited derivative transactions hedging variable annuity guarantees subject to fluctuations as a result of interest rate sensitivity. Eligibility for the special accounting provision within this standard is strictly limited to variable annuity contracts and other contracts involving certain guaranteed benefits similar to those offered with variable annuities that are reserved for in accordance with *Valuation Manual 21: Requirements for Principal-Based Reserves for Variable Annuities* (VM-21)[19]. The statutory accounting guidance within is considered a special accounting provision, only permitted if all the components in the standard are met, and shall not be inferred as an acceptable statutory accounting approach

[19] *Actuarial Guideline XLIII, CARVM for Variable Annuities* (AG 43) shall apply in states that have not adopted the Valuation Manual.

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for situations that do not meet the stated qualifications or that are not specifically addressed within this guidance.

93. Applying the provisions within this issue paper is an election by the reporting entity. Although a reporting entity may have derivative transactions that would qualify within this issue paper guidance, a reporting entity is not required to follow the provisions within this standard. A reporting entity that did not elect to follow the special accounting provisions in this issue paper would continue to report their derivative transactions based on the SSAP No. 86 guidance. As the derivative instruments that qualify for effective hedges in this issue paper would not qualify as effective hedges under SSAP No. 86, a reporting entity that follows the SSAP No. 86 guidance would be required to report these derivative instruments under the fair value accounting method. (This method requires the derivative instruments to be reported at fair value, with changes in the fair value reported as unrealized gains or losses.)

U.S. Generally Accepted Accounting Principles

94. U.S. GAAP guidance for derivatives is currently captured in *Accounting Standards Codification Topic 815*. The U.S. GAAP derivative guidance is based on four cornerstones (ASC 815-10-10-1):

a. Derivative instruments represent rights or obligations that meet the definitions of assets or liabilities and should be reported on the financial statements.

In making this decision, the FASB noted that derivatives are assets or liabilities because they represent rights or obligations and that recognizing those assets and liabilities will make financial statements more complete and more informative. The FASB noted that prior to FAS 133, many derivatives were off-balance-sheet, because, unlike conventional financial instruments (such as stocks, bonds, and loans), derivatives often reflect at their inception only a mutual exchange of promises with little or no transfer of tangible consideration. *FAS 133, BOC – 219.*

b. Derivative instruments should be measured at fair value, and adjustments to the carrying amount of hedged items should reflect changes in their fair value (that is gains or losses) that are attributable to the risk being hedged and that arise while the hedge is in effect.

In making this decision, the FASB identified that fair value is the only relevant measurement attribute for derivatives. They noted that amortized cost is not a relevant measure for derivatives because the historical cost of a derivative often is zero, yet a derivative can be settled or sold at any time for an amount equivalent to its fair value. The reasoning for "held to maturity" instruments being held at amortized cost, was noted as not suitable for derivatives. *FAS 133, BOC - Paragraph 223.*

c. Only items that are assets or liabilities should be reported in the financial statements.

In making this decision, the FASB identified that derivatives are assets and liabilities, but the gains and losses that result in changes in the fair value of derivatives are not separate assets or liabilities because they have none of the essential characteristics of assets or liabilities. The FASB identified that the act of designating a derivative as a hedging instrument does not convert a subsequent loss or gain into an asset or a liability. A loss is not an asset because no future economic benefit is associated with it. The loss cannot be exchanged for cash, a financial asset, or a nonfinancial asset used to produce something of value, or used to settle liabilities. Similarly, a gain is not a liability because no obligation exists to sacrifice assets in the future. *FAS 133, BOC – 229.*

d. Special accounting for items designated as being hedged should be provided only for qualifying items. One aspect of qualification should be an assessment of the expectation of

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effective offsetting changes in fair value or cash flows during the term of the hedge for the risk being hedged.

In making this decision, the FASB noted that a primary purpose of hedge accounting is to link items or transactions whose changes in fair values or cash flows are expected to offset each other. The FASB decided that one of the criteria for qualification for hedge accounting should focus on the extent to which offsetting changes in fair values or cash flows on the derivative and the hedged item or transaction during the term of the hedge are expected and ultimately achieved. *FAS 133, BOC – 230.*

95. Pursuant to the four cornerstones, as well as other components of the U.S. GAAP guidance, the provisions in this issue paper are not considered to be consistent with U.S. GAAP. Similar to SSAP No. 86, derivative instruments allowed to be considered part of an effective hedge under this issue paper, would not qualify to be considered part of an effective hedge under U.S. GAAP.

96. Key Elements of U.S. GAAP Guidance: (Only relevant excerpts are included.)

a. An entity shall recognize all of its derivative instruments in its statement of financial position as either assets or liabilities depending on the rights and obligations under the contracts. (815-10-25-1)

b. All derivative instruments shall be measured initially at fair value. (815-10-30-1)

c. All derivative instruments shall be measured subsequently at fair value. (815-10-35-1)

d. Forward contracts and purchased options within the scope of "Certain Contracts on Debt and Equity Securities" shall, at inception, be designated as held to maturity, available for sale, or trading in a manner consistent with the accounting prescribed for that category of securities. Such forward and option contracts are not eligible to be hedging instruments. (815-10-25-17)

e. Unless offsetting guidance is met (210-20-45-1), fair value of derivative instruments in a loss position shall not be offset against the fair value of derivative instruments in a gain position. (815-10-45-4)

f. An embedded derivative shall be separated from the host contract and accounted for as a derivative instrument if, and only if, the following criteria are met:

i. The economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract.

ii. The hybrid instrument is not remeasured at fair value under otherwise applicable GAAP with changes in fair value reported in earnings as they occur.

iii. A separate instrument with the same terms as the embedded derivative would be a derivative instrument. (815-15-25-1)

g. Concurrent designation and documentation of a hedge is critical; without it, an entity could retroactively identify a hedged item, a hedged transaction, or a method of measuring effectiveness to achieve a desired accounting result. To qualify for hedge accounting, there shall be, at inception of the hedge, be formal documentation of specific elements. (815-20-25-3)

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h. An asset or liability is eligible for designation as a hedged item in a fair value hedge if all of the following additional criteria are met. (Only including key excerpts) (815-20-25-12)

i. The hedged item presents an exposure to changes in fair value attributable to the hedged risk that could affect reported earnings.

ii. If the hedged item is all or a portion of a debt security (or a portfolio of similar debt securities) that is classified as held to maturity in accordance with Topic 320, the designated risk being hedged is the risk of changes in its fair value attributable to credit risk, foreign exchange risk or both.

i. Gains and losses on fair value hedges shall be accounted for as follows: (815-25-35-1)

i. The gain or loss on the hedging instrument shall be recognized currently in earnings.

ii. The gain or loss (that is, the change in fair value) on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedging item and be recognized currently in earnings.

If the fair value is fully effective, the gain or loss on the hedging instrument, adjusted for the component (if any) of that gain or loss that is excluded from the assessment of effectiveness under the defined risk management strategy for that particularly hedging relationship, is attributable to the hedged risk. Any difference that would arise would be the effect of hedge ineffectiveness, which consequently is recognized currently in earnings. (815-25-35-2)

International Financial Reporting Standards

97. Although International Financial Reporting Standards do not have guidance permitting effective hedge treatment as presented in this issue paper, the International Accounting Standards Board (IASB) is currently working on a similar project "*Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging.*" In April 2014, the IFRS released a Discussion Paper as a first step in developing an accounting model for dynamic risk management.

98. The objectives of the IFRS project is to simplify and improve the usefulness of financial statements by developing accounting requirements for hedging within the context of open portfolios that are more closely aligned with a company's risk management activities. The IFRS identified, as a primary driver for initiating the project, the problems associated with applying hedge accounting, which is a fundamentally static concept (linking hedged instruments to hedged items) to dynamic risk management of open portfolios. As such, the IFRS decided to consider a new model for dynamic risk management of open portfolios.

99. The IASB is currently considering comments received on the exposed Discussion Paper, however, in reviewing project updates, it is anticipated that the IASB will re-issue a revised Discussion Paper for comment before even considering an exposure draft. (This is partly due to the original Discussion Paper focusing on interest rate risk management at banks, and commenters requested additional focus on the management of interest rate risk and other risks within non-bank entities.) As such, there is no expected timeframe for completion of this project at the IASB. This project is considered to be in the early stages, and it is anticipated to take a significant time before a standard is issued. In reviewing comments received by the IASB, some commenters included reference to insurance contracts, identifying that the need for a portfolio accounting model is needed to avoid accounting mismatches. These commenters supported the inclusion of hedged risks within insurance contracts being included in the IASB's dynamic risk management project.

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Appendix F
Policy Statements

Introduction

The policy statements contained within Appendix F are not included within the Statutory Hierarchy and thus should not be considered accounting guidance. As such, each policy statement is included for informational purposes only.

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NAIC Policy Statement on Maintenance of Statutory Accounting Principles

1. Statutory accounting principles (SAP) provide the basis for insurers to prepare financial statements to be filed with and utilized by state insurance departments for financial regulation purposes. Accuracy and completeness of such filings are critical to meaningful solvency monitoring. Accordingly, maintenance of SAP guidance for changes in the industry and changes in regulatory concerns is vital to preserving the usefulness of SAP financial statements.

2. The promulgation of new or revised SAP guidance by the NAIC ultimately requires action of the entire NAIC membership. Responsibility for proposing new or revised SAP guidance will be delegated through the NAIC committee structure to the Accounting Practices and Procedures (E) Task Force (Task Force). The Task Force will charge the Statutory Accounting Principles (E) Working Group (Working Group) with the exclusive responsibility to develop and propose new statements of statutory accounting principles (SSAPs), to revise existing SSAPs, and to issue interpretations.

Composition of the Statutory Accounting Principles (E) Working Group

3. The chair of the Task Force shall determine membership of the Working Group subject to approval by the Financial Condition (E) Committee. The Working Group shall be limited in size to no more than 15 members and will include representation from the four zones of the NAIC. Membership shall be vested in the state (until such time as the membership may be changed) but continuity of individuals, to the extent possible, is extremely desirable.

Development of New or Substantively Revised SSAPs

4. New SSAPs will be developed to address, but will not be limited to: 1) concepts not previously addressed by a SSAP and that do not fit within the scope of an existing SSAP; 2) concepts that fit within the scope of an existing SSAP, but the Working Group elects to supersede existing SSAPs and 3) existing concepts that warrant significant revisions. Substantively-revised SSAPs will be developed to address, but will not be limited to: 1) concepts that fit within the accounting topic of an existing SSAP, but have not been addressed by the Working Group; 2) changes to the valuation and/or measurement of an existing SSAP; and 3) modifications to the overall application of existing SSAPs. The decision to undertake development of a new or substantively revised SSAP will rest with the Working Group. New or substantively revised SSAPs will have a specified effective date.

5. Research and drafting of new or substantially revised SSAPs will be performed by NAIC staff under the direction and supervision of the Working Group which may enlist the assistance of interested parties and/or consultants with requisite technical expertise as needed or desired. The first step in developing new and substantively revised SSAPs will commonly be the drafting of an issue paper, which will contain a summary of the issue, a summary conclusion, discussion, and a relevant literature section. Public comments will be solicited on an issue paper (at least one exposure period), and at least one public hearing will be held before the issue paper is converted to a SSAP. Upon approval by the Working Group, all proposed SSAPs will be exposed for public comment for a period commensurate with the length of the draft and the complexities of the issue(s). After a hearing of comments, adoption of new or substantively revised SSAPs (including any amendments from exposure) may be made by simple majority. If no comments are received during the public comment period, the Working Group may adopt the proposal collectively (one motion/vote) with other non-contested positions after the opportunity is given during the hearing to separately discuss the proposal. All new and substantively revised SSAPs must be on the agenda for at least one public hearing before presentation to the Task Force for consideration. Adoption by the Task Force, its parent and the NAIC membership shall be governed by the NAIC bylaws.

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6. The Working Group may, by a super majority vote (7 out of 10 members, 8 out of 11 or 12, 9 out of 13, 10 out of 14, and 11 out of 15) elect to: 1) combine the IP and SSAP process, resulting in concurrent exposure of the two documents; 2) expose and adopt revisions to a SSAP prior to the drafting/adoption of the related IP; and/or 3) forego completion of an IP and only proceed with revisions to a substantively revised SSAP.

7. If accounting guidance, reserving standards, asset valuation standards, or any other standards or rules affecting accounting practices and procedures are first developed by other NAIC working groups, task forces, subcommittees, or committees, such proposed guidance, standards or rules shall be presented to the Working Group for consideration. In cases where such guidance has already been subjected to substantial due process (e.g., public comment periods and/or public hearings), the Working Group may elect to shorten comment periods and/or eliminate public hearings, and in such cases, will notify the Task Force of these actions.

Development of Nonsubstantive Revisions to SSAPs

8. Nonsubstantive revisions to SAP will be developed to address, but will not be limited to: 1) clarification of the intent or application of existing SSAPs; 2) new disclosures and modification of existing disclosures; 3) revisions that do not change the intent of existing guidance; and 4) revisions to *Appendix A—Excerpts of NAIC Model Laws* to reflect amendments to NAIC adopted model laws and regulations. Research and drafting of nonsubstantive revisions will be performed by NAIC staff under the direction and supervision of the Working Group. Public comment will be solicited on nonsubstantive revisions, and the item will be included on the agenda for at least one public hearing before the Working Group adopts nonsubstantive revisions. Nonsubstantive revisions are considered effective immediately after adoption by the Working Group, unless the Working Group incorporates a specific effective date. If comments are not received during the public comment period, the Working Group may adopt the proposal collectively (one motion/vote) with other "non-contested" positions after opportunity is given during the hearing to separately discuss the proposal. At its discretion, the Working Group may request that an issue paper be drafted for nonsubstantive revisions in order to capture historical discussion and adopted revisions. Adoption of nonsubstantive revisions by the Task Force, its parent and the NAIC membership shall be governed by the NAIC bylaws.

Development of Interpretations to SSAPs and Referencing Interpretations Within SSAPs

9. Interpretations will be developed to address, but will not be limited to issues requiring timely application or clarification of existing SAP, which shall not amend, supersede or conflict with existing, effective SSAPs. Issues being considered as an interpretation must be discussed at no less than two open meetings. (Original introduction of the issue when the Working Group identifies the intent to address the issue as an "interpretation" during a public discussion is considered the first open meeting discussion.) The process must allow opportunity for interested parties to provide comments, but as interpretations are intended to provide timely responses to questions of application or interpretation and clarification of guidance, no minimum exposure timeframe is required.

10. The voting requirement to adopt an interpretation is a simple majority. As interpretations do not amend, supersede or conflict with existing SSAP guidance, the interpretation is effective upon Working Group adoption unless specifically stated otherwise. The Working Group shall report the adopted interpretation to the Task Force as part of its public report during the next NAIC national meeting (or earlier if applicable). Interpretations can be overturned, amended or deferred only by a two-thirds majority of the Task Force membership.

11. In rare circumstances, the Working Group may adopt an interpretation which creates new SAP or conflicts with existing SSAPs. Historically, these interpretations temporarily modified statutory accounting principles and/or specific disclosures were developed in response to nationally significant events (e.g., Hurricane Sandy, September 11, 2001). In order to adopt an interpretation that creates new

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SAP or conflicts with existing SSAPs, the Working Group must have 67% of its members voting (10 out of 15 members) with a super majority (7 out of 10, 8 out of 11 or 12, 9 out of 13, 10 out of 14, or 11 out of 15) supporting adoption. These interpretations can be adopted, overturned, amended or deferred only by a two-thirds majority of the Task Force membership.

12. As new SSAPs are developed, it is essential to review and, if necessary, update the status of interpretations related to SSAPs that are being replaced and/or new SSAPs being developed. The following options are available to the Working Group when a SSAP with existing interpretations is replaced:

a. **Interpretation of the new SSAP -** If the Working Group would like to maintain the interpretation, the new SSAP can be added to the list of statements interpreted by the interpretation. In addition, the status section of the new SSAP will list the interpretation number next to the heading "Interpreted by."

b. **Nullification** - When an interpretation is nullified by a subsequent SSAP or superseded by another interpretation, the interpretation is deemed no longer technically helpful, is shaded and moved to Appendix H (Superseded SSAPs and Nullified Interpretations), and the reason for the change is noted beneath the interpretation title. The status section of the SSAP describes the impact of the new guidance and the effect on the interpretation (for example, nullifies, incorporated in the new SSAP with paragraph reference, etc.).

c. **Incorporation** - When an interpretation is incorporated into a new SSAP, the Working Group can choose from the following two options:

i. If the interpretation only interprets one SSAP, then the interpretation is listed as being nullified under the "affects" section of the SSAP and is not referenced under the "interpreted by" section of the status page of the SSAP.

ii. If the interpretation references additional SSAPs, and the Working Group intends to maintain the guidance, the interpretation is unchanged (no nullification). The new SSAP (Summary of Issue section) reflects that the interpretation issue has been incorporated into the new statement.

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NAIC Policy Statement on Comments to GAAP & IFRS Exposure Drafts

1. As expressed in the Statement of Concepts, statutory accounting principles (SAP) utilize the framework established by U.S. Generally Accepted Accounting Principles (GAAP). The NAIC's guidance on SAP (defined in the *Accounting Practices and Procedures Manual*) is comprehensive for those principles that differ from GAAP based on the concepts of statutory accounting. Those GAAP pronouncements that are not applicable to insurance companies will not be adopted by the NAIC. GAAP pronouncements that do not differ from SAP may specifically be adopted by the NAIC to be included in statutory accounting. GAAP pronouncements do not become part of SAP until and unless adopted by the NAIC. Future SAP pronouncements will specifically identify any GAAP pronouncements that are to be included in SAP whether in whole, in part, or with modification as well as any GAAP pronouncements that are rejected. Future GAAP pronouncements, which SAP has not yet addressed, shall not be considered as providing authoritative statutory guidance.

2. As stated in the previous paragraph, the NAIC believes it is important to comment on GAAP exposure drafts that will affect SAP before such guidance is finalized. Exposing potentially contentious issues to the applicable GAAP bodies before completion will create a more efficient and effective maintenance process for the Statutory Accounting Principles (E) Working Group (Working Group). In addition, this allows the NAIC to be proactive to GAAP rather than reactive under the current system. The NAIC also believes that there may be instances in which it is important to comment on exposure drafts of the International Financial Reporting Standards (IFRS). This is particularly important on projects in which U.S. FASB and the International Accounting Standards Board (IASB) are attempting to converge, or to limit differences between U.S. GAAP and IFRS.

3. Comments on exposed GAAP pronouncements or IFRS exposure drafts will be developed at the discretion of the Working Group chair. After a comment letter has been agreed to by the Working Group, the chairs of the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee must review and approve the comment letter before it is sent to the applicable standard board. Every reasonable attempt will be made to provide an adequate comment period to interested parties; however, FASB and IFRS deadlines may inhibit exposure in every instance. The chairs will consider factors such as comment deadline and level of controversy surrounding the issue. The chair of the parent task force or committee may override such a decision at any time.

4. Comment letters submitted to the FASB on GAAP exposure drafts may be considered when the Working Group is reviewing finalized GAAP pronouncements (as defined in the NAIC *Policy Statement on Maintenance of Statutory Accounting Principles*). Nevertheless, these letters will not bind the Working Group to its tentative position during its deliberation to adopt, modify or reject the final GAAP guidance.

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NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process

1. The purpose of this policy statement is to document the Statutory Accounting Principles (E) Working Group (Working Group) maintenance agenda process.

2. As acknowledged in the NAIC *Policy Statement on Maintenance of Statutory Accounting Principles*, the promulgation of statutory accounting principles (SAP) guidance will be delegated through the NAIC committee structure to the Accounting Practices and Procedures (E) Task Force (Task Force). The Task Force will charge the Working Group with the responsibility to develop and propose new statements of statutory accounting principles (SSAPs), to propose revisions to existing SSAPs, and to issue interpretations in response to questions of application and clarification on existing SSAPs.

3. Information and issues can be presented to the Working Group in a variety of ways. Issues can be recommended or forwarded from 1) other NAIC committees, task forces and working groups; 2) interested parties; 3) interested regulators; and 4) NAIC staff. Also, if any guidance within the Generally Accepted Accounting Principles (GAAP) Hierarchy (see § V of the Preamble to the *Accounting Practices and Procedures Manual* (AP&P Manual)) is added or revised, those changes must be considered by the Working Group for potential revisions to SAP. In order for an issue to be placed on the **Pending Listing**, the recommending party must complete a Statutory Accounting Principles Maintenance Agenda Submission Form (Form A) and submit it to the Working Group support staff no later than 20 business days prior to the next scheduled Working Group meeting. NAIC staff will prepare a submission form for all GAAP pronouncements that have not been previously addressed by the Working Group. NAIC staff will update the **Pending Listing** before each national meeting and will notify the recommending party of such action. If the Working Group does not wish to address the issue (e.g., issue deemed not applicable to statutory accounting) or rejects the position presented, then the Working Group may move the item to the **Rejected Listing**. Should the Working Group choose to address an issue, it is moved to the **Active Listing** where it is prioritized and categorized as a **Substantive, Nonsubstantive** or **Interpretation** agenda item.

4. The **Active Listing** identifies agenda items that are in the process of development and includes the following:

   a. **Substantive**: These agenda items address the development of new SSAPs and substantially revised SSAPs as defined in the NAIC *Policy Statement on Maintenance of Statutory Accounting Principles*.

   b. **Nonsubstantive**: These agenda items address the development of nonsubstantive revisions to SAP as defined in the NAIC *Policy Statement on Maintenance of Statutory Accounting Principles.*

   Interpretations: These agenda items address the development of interpretations to SAP as defined in the NAIC *Policy Statement on Maintenance of Statutory Accounting Principles*. If SSAP revisions are subsequently deemed necessary, the Working Group shall re-categorize the agenda item as either substantive or nonsubstantive, as applicable, and follow the appropriate process to consider and adopt revisions.

5. After review of the agenda item (including any interested party comments), at its discretion, the Working Group makes the ultimate determination of whether an agenda item is categorized (or re-categorized) as substantive (either as a new SSAP or substantively-revised SSAP), nonsubstantive or an interpretation.

6. The **Rejected Listing** identifies items that were proposed to the Working Group and rejected without consideration. The **Disposition Listing** includes all agenda items considered by the Working

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Group and provides the conclusions and guidance given for all adopted revisions to SAP and for all agenda items disposed without modification to SAP.

7. It should be noted that this policy statement addresses the process and the flow of information. The timing is left to the discretion of the Working Group. For instance, once public discussion requirements have been met, as detailed in the NAIC *Policy Statement on Maintenance of Statutory Accounting Principles*, the Working Group can take action on an item at its discretion. In determining whether it is appropriate to take specific actions (including adoption), the Working Group must consider when the last exposure period occurred and the extent of any prior comments received and discussions held. Additionally, there is no timeframe in which items must be addressed. Items will remain on the Active Listing until formally disposed of by the Working Group.

8. NAIC staff will maintain the following on the Working Group Web page (*http://naic.org/cmte_e_app_sapwg.htm*): 1) A blank Form A (Attachment A to this policy statement); 2) The current Maintenance Agenda, and 3) Current substantive, nonsubstantive and/or interpretation revisions exposed for public comment. Attachment B to this policy statement will be attached to all exposures with proposed substantive revisions and serves as the request for written comment and notice of a public hearing.

Correction of Editorial Errors

9. Over time, during review and publication of the AP&P Manual, NAIC staff may identify inadvertent editorial errors and necessary revisions to the content of the Manual. These are editorial in nature and include grammatical errors, reference changes (i.e. paragraphs, SSAPs, and Model Laws and Regulations) and formatting issues. To aid in correcting these items and improve the overall usefulness of the AP&P Manual, the Working Group has implemented the following process:

a. At each meeting of the Working Group, if NAIC staff have identified (or have been informed by interested parties or regulators) any grammatical errors, reference changes and/or formatting issues, NAIC staff will present a public memorandum to the Working Group outlining the proposed amendments to the AP&P Manual. These corrections are not intended to clarify or revise existing guidance and as such, do not ordinarily warrant the use of a Form A or addition to the Maintenance Agenda.

b. After presentation to the Working Group, the memorandum will be exposed for a public comment period. If no objections are raised by the Working Group, interested regulators or interested parties, the revisions will be considered "noncontested" and presented to the Working Group for adoption. Upon adoption, the revisions will be incorporated into the AP&P Manual, with the revisions being posted on the "Updates to the AP&P Manual" secure Web page. Under this process, these revisions will be shown as tracked changes to the Manual unless otherwise noted in the memorandum.

c. If objections are raised by the Working Group, interested regulators or interested parties, the proposed revisions will either be rejected without further discussion or incorporated into a Form A to be presented to the Working Group and subsequently exposed for a public comment period. Under this process, the revisions will follow the Maintenance Agenda process as outlined in this policy statement.

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Attachment A

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue:

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☐	☐	☐
New issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

*Description of Issue:

*Existing Authoritative Literature:

*Activity to Date (issues previously addressed by Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

*Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

Recommended Conclusion or Future Action on Issue:

Recommending Party:

(Organization, Person Submitting, Title)

(Address, City, State, ZIP)

(Phone and Email Address)

(Date Submitted)

* Indicates required information before NAIC staff will accept form as a final document.

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Attachment B

EXPOSURE DRAFT NUMBER - TITLE

Notice of Public Hearing and Request for Written Comments

Hearing Date: _____ **Location:** _____
Deadline for Written Notice of Intent to speak: **Deadline for Receipt of Written Comments:**

Basis for hearings. The Statutory Accounting Principles (E) Working Group (Working Group) will hold a public hearing to obtain information from and views of interested individuals and organizations about the standards proposed in this Exposure Draft. The Working Group will conduct the hearing in accordance with the *National Association of Insurance Commissioners (NAIC) Policy Statement on Open Meetings*. An individual or organization desiring to speak must notify the NAIC in writing by _____. Speakers will be notified as to the date, location and other details of the hearings.

Oral presentation requirements. The intended speaker must submit a position paper, a detailed outline of a proposed presentation or comment letter addressing the standards proposed in this Exposure Draft by _____. Individuals or organizations whose submission is not received by this date will only be granted permission to present at the discretion of the Working Group chair. All submissions should be addressed to NAIC staff at the address listed below. Comments can also be submitted by electronic mail to _____@naic.org.

Format of hearings. Speakers will be allotted up to 10 minutes for their presentations to be followed by a period for answering questions from the Working Group. Speakers should use their allotted time to provide information in addition to their already submitted written comments as those comments will have been read and analyzed by the Working Group. Those submissions will be included in the public record and will be available at the hearings for inspection.

Copies. Exposure drafts can be obtained on the Working Group's Web page at *http://naic.org/cmte_e_app_sapwg.htm*.

Written comments. Participation at a public hearing is not a prerequisite to submitting written comments on this Exposure Draft. Written comments are given the same consideration as public hearing testimony.

The Statutory Accounting Principles Statement of Concepts was adopted by the Accounting Practices & Procedures (EX4) Task Force on September 20, 1994, in order to provide a foundation for the evaluation of alternative accounting treatments. All issues considered by the Working Group will be evaluated in conjunction with the objectives of statutory reporting and the concepts set forth in the Statutory Accounting Principles Statement of Concepts.

The exposure period is not meant to only measure support for, or opposition to, a particular accounting treatment but rather to accumulate an analysis of the issues from other perspectives and persuasive comments supporting them. Therefore, form letters and objections without valid support for their conclusions are not helpful in the deliberations of the Working Group. Comments should register agreement or disagreement with a detailed explanation, a description of the impact of the proposed guidelines, and possible alternative recommendations for accomplishing the regulatory objective.

Any individual or organization may send written comments to _____ by electronic mail in Microsoft Word format to _____@naic.org. After written comments have been reviewed by the Working Group, the letters will be posted publicly on the NAIC website.

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NAIC Policy Statement on the Impact of Statements of Statutory Accounting Principles on NAIC Publications

1. The purpose of this policy statement is to document the process and procedure for identifying the impact of statements of statutory accounting principles (SSAPs) on NAIC publications.

2. New and revised SSAPs can affect various NAIC publications in many different ways. New accounting practices or procedures may result in new disclosures and reporting requirements (affecting annual statement blanks and instructions), modified analysis techniques (affecting RBC formula or IRIS ratios), or new examination procedures (affecting the *Financial Condition Examiners Handbook*).

3. The Statutory Accounting Principles (E) Working Group (Working Group) shall evaluate the impact that newly adopted SSAPs will have on other NAIC publications. To that end, the Working Group shall submit a referral to any group in response to new or revised SSAPs expected to impact other NAIC groups or publications. (Instead of a referral, a blanks proposal may be sponsored by the Working Group and submitted to the Blanks (E) Working Group). These referrals and blanks proposals are only required to be approved by the chair of the Working Group prior to submission to the other groups, but may be shared with and approved by all Working Group members.

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NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Annual Statement Blank

1. The purpose of the codification of statutory accounting principles (SAP) project was to produce a comprehensive guide to SAP for use by insurance departments, insurers, and auditors. Statutory accounting principles, as they existed prior to codification did not always provide a consistent and comprehensive basis of accounting and reporting. Insurance companies were sometimes uncertain about what rules to follow and regulators were sometimes unfamiliar with the accounting rules followed by insurers in other states. This was due in part to the fact that prior to codification, accounting guidance could be found in the NAIC *Accounting Practices and Procedures Manual*, annual statement instructions, the *Financial Condition Examiners Handbook*, and various states' laws and regulations. As a result, insurers' financial statements were not prepared on a comparable basis. Now that accounting requirements have been more rigidly stipulated by the NAIC, it is imperative that the accounting requirements and the reporting and disclosure requirements remain synchronized. This is an excellent opportunity to create a system of parallel requirements. This effort has already been recognized by the NAIC/AICPA (E) Working Group. In 1999, the NAIC/AICPA (E) Working Group modified the *Model Regulation Requiring Annual Audited Financial Reports* to require the following for audited financial statements:

> Notes to financial statements. These notes shall be those required by the appropriate NAIC annual statement instructions and the NAIC *Accounting Practices and Procedures Manual*. The notes shall include a reconciliation of differences, if any, between the audited statutory financial statements and the annual statement filed pursuant to Section [insert applicable section] of the [insert state] insurance law with a written description of the nature of these differences.

2. As stated in the model regulation, the NAIC/AICPA (E) Working Group has an expectation that the requirements of the annual statement instructions and the *Accounting Practices and Procedures Manual* will be identical in all pertinent parts that are subject to audit. There is no reason to create a different set of audit requirements in the annual statement instructions when a complete and comprehensive guide to statutory accounting exists. However, it must be noted that the statements of statutory accounting principles (SSAPs) are not intended to prescribe the specific format of the detailed financial statements.

3. The scope of this policy statement is defined as follows:

> Any change to the annual statement core financials (balance sheet, income statement, cash flow and notes to the financial statements) must be reviewed by the Statutory Accounting Principles (E) Working Group to determine whether it conflicts with the disclosure requirements of the SSAPs.

4. The scope is defined in broad terms because it is very difficult to specify what constitutes a conflict with the SSAPs. For example, the renumbering of the assets page does not conflict because there is not a SSAP that prescribes the order of asset presentation. Contrast this with a seemingly innocuous proposal to modify Schedule P - Part 1 that would create a disclosure conflict with the related SSAP.

5. In order to ascertain that the requirements of the annual statement instructions and blank are in harmony with the SSAPs (as they relate solely to the core financial statements), the following procedures shall be followed:

   a. The Blanks Agenda Item Submission Form will include an interrogatory that will indicate to the Blanks (E) Working Group whether the proposal:

      i. Affects the core financial statements

      ii. Conflicts with an existing SSAP

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iii. Is not currently required by a SSAP

iv. Has been reviewed by the Statutory Accounting Principles (E) Working Group

b. NAIC staff supporting the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group are charged with verifying the accuracy of the interrogatory proposed in paragraph 5.a.. After NAIC staff review the proposals, they will report their findings back to the applicable groups. If NAIC staff identify issues that need further exploration or consultation, the chairs of the two working groups or certain members from each group will hold a joint meeting.

c. The Blanks (E) Working Group will reject proposals that will delete/modify information contained within the core financial statements that are required by an existing SSAP.

d. The Blanks (E) Working Group will either reject proposals that would require additional audited disclosure or audited information within the core financial statements if that same item is not required by an existing SSAP; or move it outside the core financial statements. The sponsoring party will still have the option of placing this information outside the core financial statements (e.g., general interrogatories or interrogatories to schedules) until the disclosure is included in a SSAP. If the disclosure were added to a SSAP in the future, it could be moved to the Notes to the Financial Statements and subject to audit at that time.

e. The NAIC will maintain a SSAP to annual statement cross-reference. This cross-reference will contain two significant features. First, it will list all of the SSAP disclosures and reference them to where in the annual statement the disclosure requirement is met. Second, the cross-reference will identify the annual statement components that are required by a SSAP. The cross-reference can be used by the Blanks (E) Working Group and interested parties in completing the new Blanks Agenda Item Submission Form Interrogatory.

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NAIC Policy Statement on Coordination with the Valuation Manual

1. Proposed changes to the *Valuation Manual* must be consistent with the existing referenced model laws, including the *Standard Valuation Law* (Model #820), and, to the extent determinable, with models in development. To the extent that proposed changes to the *Valuation Manual* could have an impact on accounting and reporting guidance and other requirements as referenced by the *Accounting Practices and Procedures Manual*, proposed changes must be reviewed by the Statutory Accounting Principles (E) Working Group for consistency with the *Accounting Practices and Procedures Manual,* including consistency of implementation dates. The Life Actuarial (A) Task Force or its staff support will prepare a summary recommendation that will include as appropriate an analysis of the impact of proposed changes.

2. If the Statutory Accounting Principles (E) Working Group reaches the conclusion that the proposed changes to the *Valuation Manual* are inconsistent with the authoritative guidance in the *Accounting Practices and Procedures Manual*, The Life Actuarial (A) Task Force will work with the Statutory Accounting Principles (E) Working Group to resolve such inconsistencies prior to implementation.

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NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the NAIC Investment Analysis Office

1. The purpose of this policy statement is to detail the coordination and collaboration between the Securities and Valuation Office (SVO) and the Statutory Accounting Principles (E) Working Group (Working Group) support staff, the relationship between the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) and *Accounting Practices and Procedures Manual* (AP&P Manual) and the expectations of the Valuation of Securities (E) Task Force (VOSTF) and the Working Group.

NAIC Designations Do Not Communicate Statutory Accounting or Reporting

2. The assessment of credit risk for an obligation or asset, as specified in the P&P Manual, is a separate and distinct process from the determination of statutory accounting or reporting under the AP&P Manual. The manner in which an NAIC designation is used within statutory accounting guidance is limited to that, if any, specified in a statement of statutory accounting principle (SSAP) and cannot be derived or implied by language in the P&P Manual. Obtaining an NAIC designation does not change an investment's applicable SSAP, annual or quarterly statement reporting schedule, or override other SSAP guidance required for the investment to be an admitted asset. There are limited instances in which a SSAP specifically identifies, within its scope, the inclusion of specific SVO-identified investments. The SVO review required for an investment to be included on a SVO listing is a separate evaluation process that focuses on the structure of the investment. This process is distinct from the SVO's assessment of an investment's credit risk, which results in a NAIC designation. As stated in the Statutory Hierarchy, Section V of the Preamble, the AP&P Manual is the highest level of authoritative guidance.

Sources and Application of Statutory Accounting Guidance

3. The authority to determine and interpret existing statutory accounting guidance in, or to develop new statutory accounting guidance for the AP&P Manual, is a charge assigned by the Financial Condition (E) Committee through its Accounting Practices and Procedures (E) Task Force to the Statutory Accounting Principles (E) Working Group. The application of statutory accounting guidance to any specific obligation or asset to determine its status under the AP&P Manual is the obligation of the insurance company and its management. The state of domicile is the final authority with respect to statutory accounting and reporting guidance. Deviations from the authoritative guidance in the Statutory Accounting Hierarchy are reported as a permitted or prescribed practice.

Impact on SVO Operations

4. Because SVO analytical determinations of credit quality do not convey opinions, conclusions or informational content relative to statutory accounting status, the SVO may assign an NAIC designation to any obligation or asset that is filed by an insurer, provided that its credit quality can be assessed consistently with the polices and methodologies specified in the P&P Manual.

Communication and Coordination Between SVO and SAPWG Staff

5. The following processes are intended to assist optimum communication and coordination between the SVO and SAPWG support staff functions.

a. Maintain ongoing dialogue regarding investments, investment related SSAPs and relevant developments in the areas assigned to support staff of both groups.

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b. Maintain an ongoing dialogue relative to obligations and assets filed with the SVO, including communications about new types of obligations or assets filed with the SVO and their likely treatment under existing investment related SSAPs.

c. Maintain an ongoing dialogue relative to new obligations or assets, in which no statutory accounting guidance exists, or uncertainty exists about how current statutory accounting guidance applies to features or characteristics of the obligation or asset.

d. The NAIC Investment Analysis Office (IAO) and Financial Regulatory Services (FRS) staff shall provide notice to, and consult with, each other when either staff determines that existing technical guidance or procedures administered by the staff are no longer adequate to secure the original regulatory objective for which it was designed. Upon receipt of such notice, both staff will formulate a statement of the issues and, if possible, recommendations, and thereafter coordinate discussion between the SAPWG and the VOSTF consistent with the NAIC procedures and policies that apply to the situation. Such proposed recommendations shall be discussed consistent with the NAIC open meetings policy and any revisions to the authoritative guidance will be exposed for comment for a period of time commensurate with the significance of the change, to provide a formal forum for interested parties and regulators to provide input and allow for adequate due process.

e. Situations in which NAIC staff (SVO or FRS) are contacted directly with questions on statutory accounting application, it shall be noted that opinions of NAIC staff are not authoritative and are based on the information provided and existing authoritative statutory accounting guidance. Information and issues can be submitted to the SAPWG for consideration, as detailed in the *NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process*.

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Appendix G
Implementation Guide for the
Annual Financial Reporting Model Regulation

Introduction

The new requirements within the Annual Financial Reporting Model Regulation (Model) related to auditor independence, corporate governance and internal control over financial reporting became effective in 2010. The Implementation Guide (Guide) is being published to assist companies in planning and preparing for compliance with the new requirements.

The Guide is intended to supplement the Model, not to create additional requirements, by providing interpretive guidance and clarifying the meaning of terms used in the Model. Such guidance is important to ensure common understanding between insurers and regulators and to memorialize the intent of the changes. Because issues and questions will occur from time-to-time, by placing the Guide outside of the Model, maintenance can be achieved in a cost-effective way without reopening the Model especially when the issue under consideration is an interpretation of the requirement. The Guide should not be viewed as a requirement of complying with the *Accounting Practices and Procedures Manual.*

Maintaining the Guide

The responsibility of developing and maintaining the Guide resides with the NAIC/AICPA (E) Working Group with changes to the Guide following the NAIC regulatory due process. The Guide resides as an informational appendix to the NAIC *Accounting Practices and Procedures Manual* (AP&P Manual). The AP&P Manual was selected as the logical repository since the Guide provides instruction about compliance with the Model, which directly relates to financial reporting and statutory accounting.

The regulatory due process for modifying this Guide requires the NAIC/AICPA (E) Working Group to send adopted proposals to the Accounting Practices and Procedures (E) Task Force for adoption and inclusion in the AP&P Manual. If the Accounting Practices and Procedures (E) Task Force recommends substantive changes to the proposal received from the NAIC/AICPA (E) Working Group, the proposal should be returned to the NAIC/AICPA (E) Working Group for further deliberation.

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Table of Contents

The Table of Contents for the Guide mirrors that of the Model. However, not all sections of the Model require interpretive guidance. Consequently, only those sections containing guidance are contained in the Guide. The presentation of the Guide is organized by the section title with the section number of the Model appearing after the title.

Title	Section	Page
Definitions	3	2
General Requirements Related to Filing and Extensions for Filing of Annual Audited Financial Reports and Audit Committee Appointment	4	4
Qualifications of Independent Certified Public Accountant	7	4
Communication of Internal Control Related Matters Noted in an Audit	11	10
Requirements for Audit Committees	14	11
Management's Report of Internal Control over Financial Reporting	17	13
Exemptions and Effective Dates	18	17
Appendix 1	17	22

Definitions (Section 3)

Certain terms and definitions contained in the Model need no further explanation. The Guide provides additional information for preparers and users for some definitions to facilitate their understanding.

"**Audited financial report**" (D), differs from the term "financial statements" in that the Audited financial report (see Section 5 of the Model) includes the financial statements plus the report of the independent certified public accountant. "Financial statements," therefore, excludes the report of the independent certified public accountant.

"**Group of insurers**" (H), as intended for use in the Model is to recognize the variety of structures that may exist. Companies within a holding company structure, or other set of insurers identified by management, may often share common management, systems or processes. Consequently, when management asserts to the effectiveness of their internal controls, it is appropriate to make such an assertion for those companies based upon the organization management determines to be most relevant to meet the reporting requirements. Because holding company structures, and other groups of insurers, can be complex and organized to meet corporate objectives, that structure may not align with the organization that is responsible for managing and preparing the financial statements of the insurer. The Model provides flexibility to insurers to identify a "Group of insurers" for purposes of evaluating the effectiveness of their internal control over financial reporting. In determining the appropriate scope and level of testing for systems that are shared by a group of insurers, management is not required to expand the scope or perform additional testing that would be redundant for each legal entity included within the group of insurers. To the extent that a specific internal control or system is unique to and has a material impact on the preparation of the audited statutory financial statements of a legal entity included in a group of insurers and the legal entity exceeds the premium thresholds contained in Section 17, that control or system is to be included in management's evaluation of internal controls.

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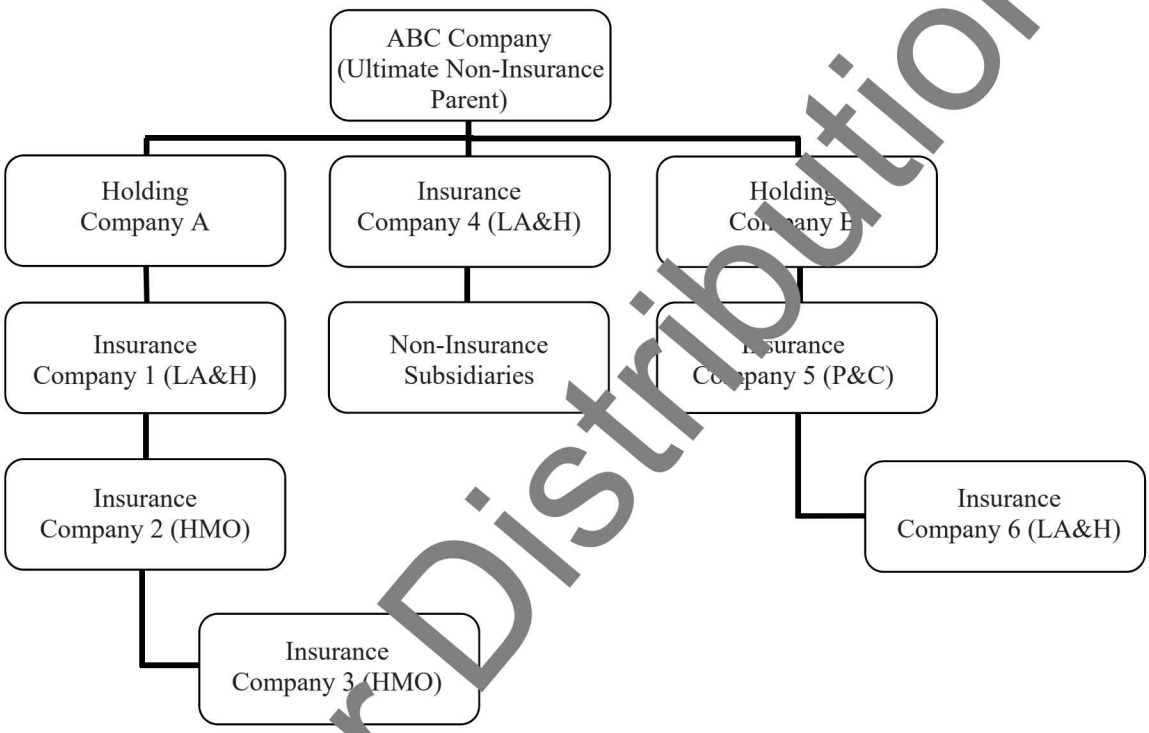
A "Group of insurers" that has been granted approval to file audited statutory consolidated or combined financial statements of a group of insurers (as described in Section 8) may set the scope and level of testing for purposes of determining effectiveness of internal controls over financial reporting consistent with the basis on which the audited statutory financial statements for the Group are prepared (i.e., at the combined or consolidated level).

The following example is intended to illustrate various ways that a "Group of insurers" could be determined. The example is not intended to be limiting in any way. Rather, it is intended to show the flexibility to be in compliance with the Model. Insurers are encouraged to notify the Commissioner of its initial "Group of insurers" and any subsequent changes to such group.



1. "Group of insurers" could be established at the ultimate parent level, i.e., one report of the effectiveness of internal controls for all insurers in the group-insurance companies 1-6.

2. Two "Group of insurers" could be established at the holding company level, i.e., holding company A and B. In this case, a separate report would be required for holding company A, holding company B, and if it met the reporting threshold, insurance company 4 since it is not in either group.

3. Two "Group of insurers" could be established based upon the type of insurance company, i.e., LA&H companies 1, 4 and 6 could be one group and HMO companies 2 and 3 in the second group. In this case, a separate report would be required for the LA&H companies, the HMO companies and if it met the reporting threshold, insurance company 5 since it is not in either group.

4. Two "Group of insurers" could be established based upon the way the entities are managed. For example, companies, 1, 2, 3 and 5 have the same management while companies 4 and 5 have common management.

5. If management elects not to identify a "Group of insurers" for purposes of evaluating the effectiveness of internal control over financial reporting then each reporting entity meeting the reporting requirements of Section 17 would prepare such a report.

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"**Internal control over financial reporting**" (I), as defined in the Model is intended to have the same meaning as understood in the public sector to comply with the requirements of the Sarbanes-Oxley Act of 2002. Because some terms might not be fully defined and to avoid misunderstanding, this Guide attempts to clarify such terms. For example, the word "reliability" used in the phrase "reliability of financial statements" has the same meaning as that contained in the generally accepted accounting principles (GAAP) framework, Statement of Financial Accounting Concepts Two. This Statement is referenced in the Preamble, Part III, paragraph 24 of the AP&P Manual.

General Requirements Related to Filing and Extensions for Filing of Annual Audited Financial Reports and Audit Committee Appointment (Section 4)

Section 4D stipulates that each insurer required to file an annual Audited financial report pursuant to the Model shall designate a group of individuals as constituting its Audit committee. Section 4D further states that the Audit committee of an entity that controls an insurer may be deemed to be the insurer's Audit committee for purposes of this regulation at the election of the controlling person. The definition of Audit committee in Section 3 of the Model references Section 14E for exercising this election. However, a disclaimer within Section 14 of the Model indicates that the section shall not apply to SOX Compliant Entities or wholly-owned subsidiaries of SOX Compliant Entities. Regardless of the disclaimer, in order to comply with the second sentence in Section 4D, the Audit committee of any entity that controls an insurer (a SOX Compliant entity or a non-SOX Compliant Entity) may be deemed to be the insurer's Audit committee at the election of the controlling person, and only if such election is completed in the manner outlined in Section 14E.

The responsibility of the Audit committee is defined in Section 14 of the Model. Section 14 states that each member of the Audit committee shall be a member of the Board of Directors and sets forth the requirements for the proportion of independent Audit committee members based on the insurer's direct written and assumed premiums. The definition of an independent Audit committee member is outlined in Section 14.

Qualifications of Independent Certified Public Accountant (Section 7)

Lead Audit Partner Rotation Requirement (Section 7D)

Purpose

The purpose of this section is to provide companies and their independent accountants with guidance to enable an orderly transition in meeting the revised lead audit partner rotation requirements as set forth in Section 7.

Background

Section 7 provides certain limitations on the number of years an audit partner may serve in the capacity of lead audit partner for an insurance company audit. Previously, the lead audit partner was permitted to serve for seven consecutive years in that capacity with a two year break in service. Under the revised Model "…the lead …audit partner (having primary responsibility for the audit) may not act in that capacity for more than five (5) consecutive years. The person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of five (5) consecutive years."

The new rotation requirements under Section 7 are effective beginning with audits of the 2010 financial statements. The rotation requirements of the Model and the interpretative guidance provided are applicable for statutory reporting and regulatory purposes. An insurer and its affiliates that are subject to the rotation requirements of the Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) must also continue to comply with those rotation requirements.

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Relief from the Lead Audit Partner Rotation Requirement (Section 7D)

The Model states:

> An insurer may make application to the Commissioner for relief from the above rotation requirement on the basis of unusual circumstances. This application should be made at least thirty (30) days before the end of the calendar year. The Commissioner may consider the following factors in determining if the relief should be granted:
>
> (a) Number of partners, expertise of the partners or the number of insurance clients in the currently registered firm;
>
> (b) Premium volume of the insurer; or
>
> (c) Number of jurisdictions in which the insurer transacts business.

The following examples illustrate circumstances that the Commissioner may consider in determining if relief from the lead partner rotation requirement shall be granted:

1. No other partners in the firm's local office have the qualifications to serve as lead audit partner and the use of a qualified partner resident in another location could result in increased audit risk and higher audit fees.
2. Limited number of partners in the firm that have the qualifications to serve as the lead audit partner.
3. Switching firms could result in increased audit risk due to the new engagement team's lack of familiarity with the insurer.
4. Limited availability of other firms in particular location with the requisite expertise.
5. The regulator believes that complex issues at an insurer make a particular partner best suited to continue as lead audit partner
6. Short-term relief due to the occurrence of an unforeseeable event that renders a partner unable to continue as the lead audit partner on the engagement.
7. Short-term relief due to unexpected delays in the state's licensing or admission process that prevent the "new" lead audit partner from assuming that role.

Also, the granting of transitional relief may be warranted when the non-insurance parent or ultimate parent of an insurance company is an SEC registrant and the current lead audit partner on the SEC registrant has completed his or her rotation as the lead audit partner on insurance subsidiaries prior to completing his or her five-year rotation as the lead partner on the audit of the GAAP financial statements of the SEC registrant. In this situation the relief would allow the lead audit partner to complete his or her rotation on the SEC registrant as long as he or she no longer acts in the capacity of lead audit partner for any insurance subsidiaries and/or any downstream affiliates of the insurance subsidiaries.

Frequently Asked Questions (Section 7D)

Following are a series of frequently asked questions to assist companies and their independent accountants in interpreting this guidance. Dates provided refer to the year of financial statements under audit.

In determining when the lead audit partner must rotate, consecutive time served in the capacity of lead audit partner prior to the effective date of these rules would be counted (i.e., the lead audit partner is not

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afforded a "fresh start"). If the lead audit partner completed the two year break in service required by the previous version of the Model prior to the effective date of these rules, the partner is eligible to resume service as a lead audit partner for a five year period and need not wait additional years to accomplish a five year break in service.

1. 2010 would be the fifth year that a partner would serve as lead audit partner of an insurance company. Would that partner be able to complete the 2010 year-end audit?

   Yes. The partner would be able to complete the 2010 year-end audit; however, the partner would be required to rotate off the engagement after the 2010 year-end audit.

2. 2010 would be the sixth or seventh year that a partner would serve as the lead audit partner. Would that partner be able to serve in that capacity for the 2010 audit?

   No. The partner would be required to rotate off for the 2010 year-end audit. In determining when the lead audit partner must rotate, consecutive time served in the capacity of lead audit partner since the most recent two year break in service prior to the effective date of these rules would be counted.

3. If a partner serves as the concurring partner from 2007 – 2010, can that partner serve as the lead audit partner in 2011? If so, for how many years?

   Yes. The Model does not prohibit a partner that has served as the concurring partner from subsequently serving as the lead audit partner. The time served as concurring partner does not count towards the five year limitation. In the situation above, the partner would be permitted to serve as lead audit partner from the 2011 year-end audit through the 2015 year-end audit.

4. Can a lead audit partner serve as the concurring review partner during the required five year break in service?

   Yes. The Model specifies that a partner may not act in "that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of five (5) consecutive years" where "that" refers to the role of lead audit partner. Therefore, the Model does not prohibit that partner from serving as concurring partner during that partner's five year break in service.

5. During the five-year break in service, can a partner serve as lead audit partner on an insurance company affiliate of that company?

   No. The Model specifies a "person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of five (5) consecutive years." The phrase "insurance subsidiaries or affiliates" is interpreted to mean any subsidiaries and affiliates (whether insurance or non insurance).

6. If a lead audit partner serves for six years prior to the effective date of the revised Model (year-end audits from 2003 – 2008) then rotates off the engagement for two years (year-end audits 2009 – 2010), can that partner serve for five additional consecutive years (year-end audits from 2011 – 2015) as the lead audit partner?

   No. The requirement for a break in service of five consecutive years becomes effective for the 2010 year-end audits. If the partner has not completed the two-year break in service prior to the effective date of the new requirement, the partner becomes subject to the new requirement and must complete a five-year break in service. However, if the lead audit partner completes the two year break in service by 2009 instead of 2010, that partner would be permitted to resume the lead audit partner role in 2010.

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7. A partner that served seven years as lead audit partner has not worked on the engagement for two years. Assuming 2010 otherwise would be year three of the break in service, can that partner assume the lead audit partner role for the 2010 year-end audit?

   Yes. The requirement for the five year break in service starts with engagement years beginning 2010. Prior to 2010, the rotation requirement is for a two year break in service.

8. If a lead audit partner served in that capacity for years 2007 – 2009 and was not on the engagement (or that of any subsidiary or affiliate) for 2010, would that partner have to complete a five year break in service before again serving as the lead audit partner?

   No. However, the partner could only serve as the lead audit partner for two more years since the partner has already served three years on this engagement.

9. Can a former lead audit partner currently in a break in service continue to serve the client in a role other than the lead audit partner, for example concurring partner or auxiliary partner, such as tax review partner or other assisting role?

   Yes. The Model auditor rotation rules apply only to the role of lead audit partner on the audit of the insurance company and its insurance subsidiaries or affiliates.

10. 2010 is the first year that a partner serves as the lead audit partner on an insurer. The partner serves as the lead audit partner on that insurer for year-end audits of 2010 – 2012; however, during 2013 – 2015 that partner does not serve as the lead audit partner on that insurer or any of its affiliates. If that partner again serves the insurer (or any of its insurance subsidiaries or affiliates) as the lead audit partner for 2016 year-end audit, when must that partner rotate off the engagement?

    The partner is permitted to serve as the lead audit partner for the 2016 and 2017 year-end audits and must begin a five-year break in service with the year-end 2018 audit. The break in service during 2013 – 2015 would be for less than the five-year period required by the Model. In order for the partner to be permitted to begin a new five-year service period as lead audit partner on the insurer or any of its insurance subsidiaries or affiliates, a full five-year break in service is required to be completed by that partner.

11. How is service as the lead audit partner on the audit of the GAAP-basis financial statements of a separate account evaluated under the Model?

    A separate account is not a legal entity, but an accounting entity with accounting records for variable contract assets, liabilities, income, and expenses segregated as a discrete operation within the insurance company. Therefore, the separate account is considered to be an insurance affiliate for purposes of applying the Model.

    If the insurer is a part of a mutual fund complex, the mutual funds are considered to be non insurance affiliates even if held as investments in the insurer's separate accounts.

12. An insurer changes to a new independent accounting firm. At the same time, the lead audit partner for that insurer joins the new independent accounting firm. Would the lead audit partner's time at the previous accounting firm count toward the five year rule at the new accounting firm?

    Yes. The rule specifically applies to the lead audit partner and not the independent accounting firm.

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13. Some firms have individuals that are CPAs but not partners (i.e., nonequity participants such as directors or principals) that serve in the role of the lead audit partner. Can such a CPA serve in the role of the lead audit partner of an insurance company?

    Yes. The Model defines the lead audit partner as the individual having "primary responsibility for the audit." Whether this capacity is served by a partner or other CPA with the equivalent qualifications is at the discretion of the independent accounting firm. As such, the individual would be subject to the rotation requirements of the lead audit partner under Section 7.

Questions 14 through 23 are based on the following hypothetical fact pattern and assume there are no public registrants in the group.

Neither insurance subsidiary A nor insurance subsidiary B has any investment in non insurance subsidiary C.

- Partner Smith served as the lead audit partner on non insurance holding company H for six years through the 2010 year-end audit.
- Partner Jones served as the lead audit partner on insurance subsidiary A for four years through the 2010 year-end audit.
- Partner Little served as the lead audit partner on insurance subsidiary B for three years through the 2010 year-end audit.
- Partner Brown served as the lead audit partner on non insurance subsidiary C for two years through the 2010 year-end audit.
- Partner Miller served as the lead audit partner on insurance subsidiary D for three years through the 2010 year-end audit.
- Partner King served as the lead audit partner on non insurance subsidiary E for seven years through the 2010 year-end audit.

14. Can Partner Smith rotate from serving as the lead audit partner on non insurance holding company H to serving as the lead audit partner on insurance subsidiary B for the 2011 year-end audit?

    Yes. The limitation under Section 7 initiates with service as the lead audit partner of an *insurer*. Assuming Partner Smith has not previously served as the lead audit partner on an insurer, he or she can then serve as the lead audit partner on insurance subsidiary B or any of its affiliates for up to five years.

15. Can Partner King rotate from serving as the lead audit partner on non insurance subsidiary E to serving as the lead audit partner on insurance subsidiary B for the 2011 year-end audit?

    Yes. The limitation initiates with service as the lead audit partner of an *insurer*. Assuming Partner King has not previously served as the lead audit partner on an insurer, he or she can then serve as the lead audit partner on insurance subsidiary B or any of its affiliates for up to five years.

16. Can Partner Brown rotate from serving as the lead audit partner on non insurance subsidiary C to serving as lead audit partner on insurance subsidiary B for the 2011 year-end audit?

    Yes. The limitation initiates with service as the lead audit partner of an *insurer*. Assuming Partner Brown has not previously served as the lead audit partner on an insurer, he or she can then serve as the lead audit partner on insurance subsidiary B or any of its affiliates for up to five years. Therefore, Brown could serve insurance subsidiary B for five years beginning with the 2011 year-end audit.

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17. Can Partner Brown rotate from serving as the lead audit partner on non insurance subsidiary C to serving as lead audit partner on Holding Company H for the 2011 year-end audit?

Yes. C is a non insurance subsidiary and H is a non insurance holding company; therefore, assuming Partner Brown has not previously served as the lead audit partner on an insurer, the partner rotation requirements of Section 7 are not applicable relative to non insurance subsidiary C and non insurance holding company H.

18. Can Partner Jones rotate from serving as the lead audit partner on insurance subsidiary A to serving as the lead audit partner for insurance subsidiary B for the 2011 year-end audit?

Yes. However, Jones can only serve for one year due to four years prior service as the lead audit partner on insurance subsidiary A (an insurance affiliate).

19. Can Partner Jones rotate from serving as the lead audit partner on insurance subsidiary A to serving as the lead audit partner on non insurance subsidiary C for the 2011 year-end audit?

Yes. However, Jones can only serve for one year due to four years prior service as the lead audit partner on insurance subsidiary A (an insurance affiliate). The limitation initiates with serving as the lead audit partner on an insurer.

20. Can Partner King rotate from serving as the lead audit partner on non insurance subsidiary E to serving as the lead audit partner on non insurance subsidiary C for the 2011 year-end audit?

Yes. E is a non insurance subsidiary and C is a non insurance subsidiary; therefore, assuming Partner King has not previously served as the lead audit partner on an insurer, the partner rotation requirements of Section 7 are not applicable relative to non insurance subsidiary E and non insurance subsidiary C.

21. Can Partner Jones rotate from serving as the lead audit partner on insurance subsidiary A to serving as the lead audit partner on non insurance subsidiary E for the 2011 year-end audit?

Yes. However, Jones can only serve for one year due to four years prior service as the lead audit partner on insurance subsidiary A (an insurance affiliate). The limitation initiates with serving as the lead audit partner on an insurer.

22. Can Partner Jones rotate from serving as the lead audit partner on insurance subsidiary A to serving as the lead audit partner on insurance subsidiary D for the 2011 year-end audit?

Yes. However, Jones can only serve for one year due to four years prior service as the lead audit partner on insurance subsidiary A (an insurance affiliate). The limitation initiates with serving as the lead audit partner on an insurer.

23. Can Partner Little rotate from serving as the lead audit partner on insurance subsidiary B to serving as the lead audit partner on non insurance subsidiary E for the 2011 year-end audit?

Yes. However, Little can only serve for two years due to three years prior service as the lead audit partner on insurance subsidiary B (an insurance affiliate). The limitation initiates with serving as the lead audit partner on an insurer.

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Prohibited Services (Section 7 G)

The Model does not allow the Commissioner to accept an Audited financial report prepared by an accountant who provides the insurer, contemporaneously with the audit, non-audit services as outlined within the Model. One of the prohibited services outlined in the Model consists of bookkeeping or other services related to the accounting records or financial statements of the insurer. The prohibition in this area should include, but is not limited to, services related to the preparation of the Annual Statement to be submitted by the insurer. However, the drafting of the Audited financial report would not be prohibited, provided that the accountant does not assume decision-making authority (e.g., approval of journal entries) in compiling the draft report.

Communication of Internal Control Related Matters Noted in an Audit (Section 11)

In addition to the annual Audited financial report, each insurer must furnish the Commissioner with a written communication as to any unremediated material weakness in its internal control over financial reporting noted during the audit. The communication is prepared by the accountant within 60 days after the filing of the annual Audited financial report and is filed by the insurer. Recognizing it may not always be practical, insurers are encouraged to file the communication concurrently with the filing of the annual Audited financial report for those years in which the insurer is aware that a financial condition examination has been scheduled. The insurer is required to provide a description of remedial actions taken or proposed to correct unremediated material weaknesses, if the actions are not described in the accountant's communication.

The Model requires that the Commissioner be notified when unremediated material weaknesses in internal control over financial reporting were noted during the audit. Previous versions of the Model required such communication when any significant deficiencies in internal control over financial reporting were noted during the audit, whether remediated or not. This distinction is important because of the level of severity of the internal control deficiency that is applicable to each term. The terms "material weakness" and "significant deficiency" have the same meaning respectively as used in PCAOB or American Institute of Certified Public Accountants (AICPA) auditing literature - PCAOB Auditing Standard No. 5, An Audit of Internal Control over Financial Reporting That is Integrated With an Audit of Financial Statements or AICPA AU Section 325, Communicating Internal Control Matters Identified in an Audit (see Section 17E of this Guide for the definitions of material weakness and significant deficiency that are included in the auditing literature). However, the insurer is expected to maintain information about significant deficiencies that were communicated by its auditors and such information should be available for review during the financial condition examination.

The following is an example of the type of communication that an insurer should prepare to communicate the remedial actions taken or proposed to correct a material weakness in its internal control over financial reporting noted during an audit.

Communication of Internal Control Related Matter Noted in an Audit - Sample

Honorable Commissioner
State of Domicile Insurance Department
State of Domicile

Dear Honorable Commissioner:

During the audit completed for the year ended December 31, 20XX, for XYZ Holding Company Inc ("XYZ"), a material weakness was noted in XYZ's internal control over financial reporting related to the calculation of insurance reserves. Due to the manner in which the data for homeowners policies are captured by the systems used in its Southeastern US regional office, changes in XYZ's estimate of

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insurance reserves for certain policies are not reviewed by XYZ's Actuarial Department prior to being recorded in the company's accounting records.

A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. In connection with the weakness noted above, XYZ's management has taken remedial actions to change its procedures for coding policies issued in the states affected so that all homeowners' policy data are included in the Actuarial Department review of estimate of insurance reserves. This change was effective on July 1, 20XX.

Should you have any questions regarding this matter, please do not hesitate to contact me at the number noted above.

Regards,

XYZ Holding Company, Inc.

Requirements for Audit Committees (Section 14)

A disclaimer within Section 14 of the Model indicates that this section shall not apply to SOX Compliant Entities or wholly-owned subsidiaries of SOX Compliant Entities. This disclaimer was placed within the Model to avoid conflicts between the independence requirements of the Model and those required of public companies under Section 301 of the Sarbanes-Oxley Act of 2002. The expectation of regulators in developing this disclaimer was that the same independent Audit committee required of public companies under Section 301 would be deemed to be the insurer's Audit committee for purposes of this regulation (pursuant to Section 4D of the Model) or would participate in the oversight of the insurers within the group. Therefore, if material weaknesses, significant deficiencies and/or significant solvency concerns are identified at the legal entity level, the independent Audit committee should be involved in addressing these issues, regardless of their materiality at the consolidated, parent company level.

Independence of an Audit Committee Member (Section 14C)

A policyholder would be considered "independent" unless they receive direct compensation from the insurer for other unrelated services.

A person who is otherwise considered independent and also serves on the Board of Directors of a contracting entity (e.g., medical provider, vendors, banks, etc.) is considered independent.

An otherwise non-independent member of the Board of Directors is considered independent for Audit committee purposes if state law requires participation on the Board (e.g., Medical providers) as long as the member is not an officer or employee of the insurer or one of its affiliates.

Notification Letter (Section 14E)

In accordance with Section 14E, upon the initial election by the insurer to designate the Audit committee of an entity that controls the insurer as its Audit committee, the insurer shall provide written notification to the Commissioner of the affected insurer. This notification shall identify the controlling entity and the basis for the election. This election remains in effect for perpetuity, until rescinded, at which time written notification would need to be provided to the Commissioner of the insurer. The notification letter should be timely filed with the Commissioner by the ultimate controlling person prior to the issuance of the statutory Audited financial report. However, each of the affected insurers (i.e. those that will have an Audit committee designated by its ultimate controlling person) that is subject to the provisions of Section 14 shall ensure that the notification letter is filed with the Commissioner. Absence such filing, each of the

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affected insurers would be individually responsible for complying with Section 14. For example, referring to the "Group of insurers" chart in Section 3, if the ABC Company is the ultimate controlling person and elects to have its Audit committee serve as the Audit committee for insurance company 5, then ABC Company would file the notification letter (insurance company 5 would have to ensure that the notification letter is filed or comply with Section 14 as a single entity). Once submitted, the election remains in effect until rescinded. The following example illustrates the reporting requirement.

> The XYZ insurance company (e.g., insurance company 5) is an indirect subsidiary of and controlled by ABC Company. ABC Company has an independent Audit committee comprised of directors of ABC Company. XYZ insurance Company has elected to designate the Audit committee of ABC Company as the Audit committee of XYZ insurance Company for purposes of complying with Audit committee requirements of the Annual Financial Reporting Model Regulation.

(Signed)_____ (Date)_____
(XYZ Insurance Company Chief Executive Officer)
(Signed)_____ (Date)_____
(ABC Company Chief Executive Officer)

Transitional Guidance (Section 14G)

Once a company exceeds the requisite thresholds for Audit committee requirements contained in Section 14 of the Model, it is required to comply with the Audit committee requirements by January 1 following one (1) complete calendar year. The following are examples of transitional period requirements.

A: Company surpasses $300 million threshold:

ABC Insurance Company has reached the $300 million requisite threshold in its December 31, 2011 audited statutory statement and therefore will be required to meet "majority (50% or more) member independence" Audit committee requirements by January 1, 2013, providing the company necessary time for recruitment and approvals.

B: Company surpasses $500 million threshold:

ABC Insurance Company has subsequently reached the $500 million requisite threshold in its December 31, 2014 audited statutory statement and therefore will be required to meet the "Supermajority (75% or more) member independence" Audit committee requirements by January 1, 2016.

C: Company drops below threshold amount:

If ABC Insurance Company has penetrated the requisite $500 million threshold and has been in compliance with the requirements but subsequently drops below the $500 million threshold, e.g., $450 million in its December 31, 2018 audited statutory statements, the company would be subject to the "majority (50% or more) member independence" requirement and could reduce the Audit committee independence in 2019. Companies, however, are encouraged to structure their Audit committees with at least a supermajority of independent Audit committee members.

Hardship Waiver (Section 14H)

An insurer may make application to the Commissioner for a waiver from the Section 14 requirements based upon hardship. Examples may include, but are not limited to, requests based on the business type of the entity, the availability of qualified board members, or the ownership (e.g., entities owned by non-profit health systems) or organizational structure of the entity. If the application for a waiver is approved, the insurer would file, with its annual statement filing, the approval for relief from Section 14 with the

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states that it is licensed in or doing business in and the NAIC. If the nondomestic state accepts electronic filing with the NAIC, the insurer would file the approval in an electronic format acceptable to the NAIC.

Management's Report of Internal Control over Financial Reporting (Section 17)

Premium Threshold (Section 17A)

The term "direct written premium" is frequently associated with the property/casualty business. While the Model continues to use the term, it raises the question for other businesses, e.g., life and fraternal, what is the appropriate measure for assessing compliance? The following examples have been developed to illustrate the computation since the starting point is the audited financial statements of the reporting entity, and it is possible that the amount reported may not be consistent with written premium as reported in the regulatory reporting blank.

The annual direct written and assumed premium:

- will be derived from the annual Audited financial report of an individual insurer, as of December 31 immediately preceding
- are generally reported in the Statement of Operations of the Audited Financial Report on an 'earned' and a 'net of reinsurance ceded' basis
- will be computed by making the following adjustments

P/C, Health and Title entities:

	$
Premiums earned (Statement of Income in Audited financial report)	A
Add/Deduct: Change in unearned premium	B
Add: Reinsurance ceded	C
Direct written and assumed premium *	D=A+B+C

*Note: Direct written and assumed premium would be reduced by any premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program

- A - Premiums earned per the Statement of Income will generally equal the Annual Statement, Page 4.
- B - Change in unearned premium is the difference between the current period amount and the prior year-end amount reported in the liabilities section of the balance sheet. The amount may also be derived from other company prepared exhibits.
- C - Reinsurance ceded may be derived from the notes to the Audited financial report, if disclosed, or other company prepared exhibits or schedules. If the Statement of Income or Statement of Operations separately presents reinsurance ceded, an adjustment is not required.
- D - Must be equal to, or greater than, $500 million in order to be subject to Section 17 reporting.

Life and Fraternal entities:

	$
Premiums earned (Statement of Operations in Audited financial report)	A
Add: Reinsurance ceded	B
Direct written and assumed premium	C=A+B

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- A - Premiums earned per the Statement of Operations will generally equal the Annual Statement, Page 4.
- B - Reinsurance ceded may be derived from the notes to the Audited financial report, if disclosed, or other company prepared exhibits or schedules. If the Statement of Operations separately presents reinsurance ceded, an adjustment is not required.
- C - Must be equal to, or greater than, $500 million in order to be subject to Section 17 reporting.

Companies in an RBC Level Event or in Hazardous Financial Condition (Section 17B)

For purposes of this subsection, the phrase "RBC level event" refers to any of the regulatory action levels described in the Risk-Based Capital requirements or the trend test. For example, if the reporting entity's total adjusted capital is equal to or less than 200% of the required risk-based capital, the result would trigger regulatory action.

Management's Report of Internal Control over Financial Reporting (Sections 17C & 17D)

Management must annually provide their domiciliary insurance department with a report on internal controls over the statutory financial statement process. Recognizing it may not always be practical, insurers are encouraged to file the report concurrently with the filing of the annual Audited financial report for those years in which the insurer is aware that a financial condition examination has been scheduled. The elements to be included in the report are outlined in 17D.

As outlined in Section 17C, an addendum is required for all reports that rely on a Section 404 Report (Sarbanes-Oxley). The Model states that the Section 404 Report contains management's report on internal control over financial reporting as defined by the SEC and the related attestation report of the independent certified public accountant. However, in 2010, the Dodd-Frank Act exempted non-accelerated SEC filers (those reporting companies that do not meet the definition of either an "accelerated filer" or a "large accelerated filer" under Exchange Act Rule 12b-2.) from the requirement to obtain the related attestation report of the independent certified public accountant. As such, non-accelerated SEC filers may file a Section 404 Report that does not include an attestation report of the independent certified public accountant, along with the appropriate addendum, to fulfill requirements in this area.

Alternately, insurers may utilize a report received as a result of work performed in accordance with Statement of Standards in Attestation Engagements (SSAE) No. 15 in a similar fashion to a Section 404 Report. As such, there are two main types of reports that can be provided:

- Reports from entities that have complied with all required elements of Section 404 of the Sarbanes-Oxley Act (or have received an SSAE No. 15 report) either as a requirement or on a voluntary basis.
- Reports from entities that have not complied with Section 404 of the Sarbanes-Oxley Act (or have not received an SSAE No. 15 report).

Appendix F of this guide provides examples of Management's Report of Internal Controls over Financial Reporting utilizing various facts and circumstances.

Section 17D(2): Management must make an assertion regarding the effectiveness of the insurer's Internal control over financial reporting to the best of its knowledge and belief after diligent inquiry. For purposes of filing the report, "diligent inquiry" means conducting a search and thorough review of relevant documents which are reasonably likely to contain significant information with regards to Internal control over financial reporting and making reasonable inquiries of current employees and agents whose duties include responsibility for Internal control over financial reporting.

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Section 17D(5): The report must disclose any unremediated material weaknesses in Internal control over financial reporting that exist as of the balance sheet date. If the insurer or Group of insurers has identified an unremediated material weakness, management is not permitted to conclude that its Internal control over financial reporting is effective and it must include a description of the nature of any unremediated material weakness in the report. December 31 is used as the measurement date to whether a material control weakness is unremediated for purposes of reporting under this section of the Model.

Section 17D(6): Users of the report should be aware of the inherent limitations in Internal control over financial reporting. PCAOB Auditing Standard No. 5, An Audit of Internal Control over Financial Reporting That is Integrated With an Audit of Financial Statements provides the following description of such inherent limitations:

> Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Additionally, readers of the report should be aware that projecting management's assertion regarding the effectiveness of Internal control over financial reporting to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate.

Section 17D(7): The report must include signatures of the chief executive officer and chief financial officer (or the equivalent position/title). If a report is being filed on behalf of a Group of insurers, management should identify the officeholders (i.e., the CEO and CFO of Company ABC) that have the authority to sign the report on behalf of all of the legal entities being reported upon within the Group of insurers.

Basis for Management's Review and Assertions (Section 17E)

One of the primary reasons for the new Section 17 of the Model is to bring additional focus and attention to internal control over financial reporting. Financial reporting is the underpinning of many of the solvency oversight activities of insurance regulators. Section 17 of the Model identifies management's responsibilities for internal control over financial reporting and provides regulators additional assurances of the effectiveness of internal control practices in a cost effective manner.

The basis for Management's Report of Internal Control over Financial Reporting shall be subject to insurance departments' financial condition examinations. Because of this and other solvency tools available to regulators, there is no requirement that the independent certified public accountant be engaged to perform an examination of the effectiveness of internal control over financial reporting. However, Section 9 requires the independent public accountant to consider (as that term is defined in AICPA Statement on Auditing Standards (SAS) No. 102, Defining Professional Requirements in Statements on Auditing Standards, or its replacement) the most recently available Management's Report of Internal Control over Financial Reporting in planning and performing the audit of the statutory financial statements. SAS No. 102, paragraph 4 states, "If a SAS provides that a procedure or action is one that the auditor "should consider," the consideration of the procedure or action is presumptively required, whereas carrying out the procedure or action is not." AU Section 319 of the Professional Standards of the AICPA, Consideration of Internal Control in a Financial Statement Audit, requires that the auditor obtain an understanding of internal control sufficient to plan and execute the audit. It is in this

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context that the auditor is required to "consider" management's report. There is no requirement that the auditor test or otherwise use management's report.

The Model does not mandate a specific framework for management's review and evaluation of internal controls. SEC registrants typically (but are not required to) use the COSO Internal Control-Integrated Framework in assessing the effectiveness of internal control over financial reporting. The COSO-sponsored "Enterprise Risk Management-Integrated Framework" and the PCAOB Guidance for Smaller Public Companies Reporting on Internal Control over Financial Reporting are other examples of relevant literature companies may want to consider in applying such a framework. Under the Model, however, management, when making its assessment and preparing its report, has discretion as to the nature of the internal control framework used. Insurers shall have flexibility as to the frequency and scope of testing activities and the documentation provided upon examination to support the assertions. Management should assess and select an appropriate framework or approach based upon its business risks and objectives.

Management's assertions about the effectiveness of internal controls enhance oversight and understanding of insurer solvency by allowing regulators to have greater confidence in the accuracy of financial reporting, which also provides a benefit to policyholders and creditors. An expected benefit of this enhancement, where internal controls are effective, is that financial examinations will become more efficient and risk-focused.

Management's Report of Internal Control over Financial Reporting may span more than one legal entity. Because internal controls are primarily about processes and those processes are often applied across multiple legal entities within an organization, (e.g., investment systems, premium and loss/benefit systems, and financial reporting processes), management may consider common processes and the associated controls when determining the Group of insurers for reporting purposes.

The Model provides flexibility in meeting the requirements of Section 17D and E. The controls included in the scope of management's report should only include those controls deemed significant or critical by management. The following examples represent aspects and components of internal control that insurers may want to consider when making the assertions and determining relevant documentary evidence. These are not intended to serve as, and should not be considered, requirements:

- The internal control environment including oversight provided by the Audit committee of the Board of Directors. Insurers may want to consider how they can demonstrate "Tone at the Top." The insurer's compliance programs, code of conduct and the processes for reporting policy exceptions and overrides of controls may also be appropriate to consider.

- The risk assessment process utilized and identification of the areas of potential material internal control risk related to the financial statement. Risk areas that one might typically find for an insurance enterprise include:
  - Investments (including capital expenditures)
  - Policy and Claim Reserves
  - Benefit Payments
  - Premiums / Agent's Balances
  - Reinsurance
  - Related Party (Affiliate) Transactions
  - Operating Expenses/Taxes

- The control activities in place including procedures over financial reporting, which in management's judgment are appropriate under the circumstances. These might include the daily or monthly controls management relies upon in the normal course of its activities. They would also

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include any SAS 70 reports received from vendors upon which management relies. General information systems and technology controls might also be considered.

- The monitoring and testing processes used in the normal course of business to ascertain that the internal controls are in place and are working as intended. Insurers may want to consider describing the purpose, function or role of an internal audit department and/or describe other self-audit and analysis activities.

- The information and communication processes, including the frequency of reporting and monitoring activities and communication of internal control responsibilities.

Section 17D(5) of the Model indicates that if one or more unremediated material weaknesses in Internal control over financial reporting exists as of the balance sheet date, then management is not permitted to conclude that internal control over financial reporting is effective and it must include a description of the nature of any unremediated material weaknesses in the report. For purposes of this determination, material weakness has the same meaning as used in PCAOB or AICPA auditing literature – PCAOB Auditing Standard No. 5, An Audit of Internal Control over Financial Reporting That is Integrated With an Audit of Financial Statements or AICPA AU Section 325, Communicating Internal Control Related Matters Identified in an Audit. Such guidance provides the following definitions:

> Significant Deficiency – A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
>
> Material Weakness – A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Insurers filing Management's Report of Internal Control over Financial Reporting as a Group of insurers may want to also consider identifying or documenting common systems and controls used by multiple companies within an insurance holding company system and how such information was used in the development of the Group of insurers for reporting purposes.

To allow insurers to comply with Section 17 in a cost effective manner, management may base its assertions, in part, upon its review, monitoring and testing processes performed in the normal course of it activities. Management may also consider diligent inquiry of key process owners throughout the organization to provide additional assurance as to the operating effectiveness of its internal control over financial reporting. For purposes of filing the report, "diligent inquiry" means conducting a search and thorough review of relevant documents which are reasonably likely to contain significant information with regards to internal control over financial reporting and making reasonable inquiries of current employees and agents whose duties include responsibility for Internal control over financial reporting.

Exemptions and Effective Dates (Section 18)

Hardship Waivers (Section 18A)

Notwithstanding any other provision of the Model, an insurer may make written application to the Commissioner for waiver from any or all provisions of the Model based upon financial or organizational hardship. For example, the Commissioner could under this section grant a waiver of the Section 14B audit committee independence requirements to a company exceeding the $500 million premium threshold, even though the Section 14H waiver would not apply. This exemption is granted at the discretion of the Commissioner, and may be granted at any time for a specified period or periods.

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Specific Effective Dates (Section 18F)

An insurer will be required to file a Section 17 report if the insurer exceeds the premium threshold (as defined in Section 17A.)

1. Assume the insurer reports premiums as follows (note that the direct written and assumed premium in these examples would be reduced by any premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program) :

$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	390.8	410.5	425.7	450.8
Add: Reinsurance ceded	100.5	115.7	115.8	120.1	127.2
Gross direct written and assumed premium	450.8	506.5	526.3	545.8	578.0

In the above example, the insurer has reached the requisite threshold in 201x+1 and therefore will file its first Section 17 report effective December 31, 201x+3.

2. Assume the insurer reports premiums as follows:

$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	380.5	390.8	410.5	425.7
Add: Reinsurance ceded	100.5	110.7	115.7	115.8	120.1
Gross direct written and assumed premium	450.8	491.2	506.5	526.3	545.8

In the above example, the insurer has reached the requisite threshold in 201x+2 and therefore will file its first Section 17 report effective December 31, 201x+4.

3. Assume the insurer reports premiums as follows:

$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	390.8	380.5	410.5	425.7
Add: Reinsurance ceded	100.5	115.7	110.7	115.8	120.1
Gross direct written and assumed premium	450.8	506.5	491.2	526.3	545.8

In the above example, the insurer has reached the requisite threshold in 201x+1 and therefore will file its first Section 17 report effective December 31, 201x+3. Because the insurer dropped below the threshold in 201x+2, the insurer is not required to file a Section 17 report and thus, the reporting period starts over. The insurer reaches the threshold in 201x+3 and therefore, required to file the Section 17 report effective December 31, 201x+5. The insurer may choose to begin voluntarily filing the Section 17 report beginning with 201x+3 especially if the insurer has done the work to prepare the report.

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Business Combination

A business combination is defined as acquisition of insurance/reinsurance business through:

A. a stock acquisition,
B. inforce reinsurance assumption, or
C. a merger of insurers in a Group of insurers

A. Stock Acquisitions

Assume Company A, which has premiums of $500m or more, buys Company B and retains Company B as a separate legal entity.

If Company B has premiums of less than $500m (as derived from Section 17A), no Section 17 report is required.

If Company B has premiums of $500m or more (as derived from Section 17A), a Section 17 report is required.

1. Assume Company B is acquired effective January 1, 201x and subsequently reports premiums as follows. Assume further that Company A and B elect to file separate Section 17 reports:

$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	390.8	410.5	425.7	450.8
Add: Reinsurance ceded	100.5	115.7	115.8	120.1	127.2
Gross direct written and assumed premium	450.8	506.5	526.3	545.8	578.0

In the above example, Company B has reached the requisite threshold in 201x+1 and therefore will file its first Section 17 report effective December 31, 201x+3.

2. Assume Company B is acquired June 30, 201x+2 by Company A and Company B has premiums as follows. Assume further that Company A elects to file a single Section 17 report with the Group of insurers consisting of Company A and B:

$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	390.8	410.5	425.7	450.8
Add: Reinsurance ceded	100.5	115.7	115.8	120.1	127.2
Gross direct written and assumed premium	450.8	506.5	526.3	545.8	578.0

In the above example, Company B has reached the requisite threshold in 201x+1 and therefore will file its first Section 17 report effective December 31, 201x+3. However due to the acquisition in 201x+2, the first combined Section 17 report, i.e., Group of insurers, would be effective December 31, 201x+4, two years subsequent to acquisition.

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B. Inforce Reinsurance Assumption

For the purposes of determining premiums pursuant to Section 17A, assumed premiums from the assumption of an inforce reinsurance transaction will be excluded from the measurement of premiums, for two calendar years subsequent to acquisition.

Assume the insurer assumed an inforce transaction effective June 30, 201x+2 and reports premiums as follows:

$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	390.8	610.5	850.7	875.8
Add: Reinsurance ceded	100.5	115.7	115.8	120.1	127.2
Gross direct written and assumed premium	450.8	506.5	726.3	970.8	1,003.0
Less: Gross assumed premium resulting from a business combination	0	0	200.0	425.0	425.0
Gross direct written and assumed premium, subject to Section 17	450.8	506.5	526.3	545.8	578.0

In the above example, the insurer has reached the requisite threshold in 201x+1 and therefore will file its first Section 17 report effective December 31, 201x+3, however only for business inforce in 201x+1 and still inforce in 201x+3. The business assumed at June 30, 201x+2 will be subject to a Section 17 report effective December 31, 201x+4, two calendar years after acquisition.

C. Mergers of Insurers in a Group of Insurers

If the merged insurer has premiums of less than $500m (as derived from Section 17A), a Section 17 report is not required.

If the merged insurer has premiums of $500m or more (as derived from Section 17A), a Section 17 report is required.

1. Assume that Insurer A and Insurer B have Gross direct written and assumed premiums as follows, and agree to merge effective January 1, 201x+1, with Insurer A as the surviving entity:

$ millions	201x	201x+1	201x+2	201x+3	201x+4
Gross direct written and assumed premium – Insurer A	450.3	460.8	510.5	n/a	n/a
Gross direct written and assumed premium – Insurer B	100.5	115.7	115.8	n/a	n/a
Less: Intercompany transactions – gross	-	65.3	62.2	n/a	n/a
Combined gross direct written and assumed premiums Insurer A	-	511.2	564.1	n/a	n/a

In the above example, the merged entity (insurer A) has reached the requisite threshold in 201x+1, and will file its first Section 17 report effective December 31, 201x+3.

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2. Assume that Insurer A and Insurer B have Gross direct written and assumed premiums as follows, and agree to merge effective January 1, 201x+2, with Insurer A as the surviving entity:

$ millions	201x	201x+1	201x+2	201x+3	201x+4
Gross direct written and assumed premium – Insurer A	450.3	460.8	510.5	n/a	n/a
Gross direct written and assumed premium – Insurer B	100.5	115.7	115.8	n/a	n/a
Less: Intercompany transactions – gross	-	-	62.2	n/a	n/a
Combined gross direct written and assumed premiums Insurer A	-	-	564.1	n/a	n/a

In the above example, the merged entity (insurer A) has reached the requisite threshold in 201x+2, and will file its first Section 17 report effective December 31, 201x+4, two years subsequent to merger.

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APPENDIX 1

Illustrative Examples of Management's Report of Internal Control over Financial Reporting

The following are examples of Management's Report of Internal Controls over Financial Reporting utilizing different facts and circumstances. These are only examples and individual company facts and circumstances will dictate the contents of their report. However, there are common elements that should be included in all reports as discussed in Sections 17C and 17D of the Model.

Example A: An SEC registrant or a member of a holding company system whose parent is an SEC registrant that had all material control processes over statutory financial reporting addressed in its Section 404 report ..... Page 23

Example B: An SEC registrant or a member of a holding company system who is a SEC registrant and is a non-accelerated filer that had all material control processes over statutory financial reporting addressed in its Section 404 report. For these non-accelerated filers, the Section 404 report does not require the report of independent registered public accounting firm on internal control over financial reporting ..... Page 25

Example C: An SEC registrant or a member of a holding company system whose parent is an SEC registrant that did not have all material control processes over statutory financial reporting addressed in its Section 404 report ..... Page 27

Example D: An SEC registrant or a member of a holding company system who is a SEC registrant and is a non-accelerated filer that did not have all material control processes over statutory financial reporting addressed in its Section 404 report. For these non-accelerated filers, the Section 404 report does not require the report of independent registered public accounting firm on internal control over financial reporting ..... Page 30

Example E: A non-SEC registrant or a member of a holding company system that voluntarily complied with Section 404 of the Sarbanes-Oxley Act and produced a report on internal controls which included an auditor's opinion ..... Page 33

Example F: A company [or "group of insurers"] that is not subject to Section 404 and utilized their own framework to evaluate controls ..... Page 35

Example G: An SEC registrant or a member of a holding company system whose parent is an SEC registrant that had all material control processes addressed in their Section 404 report and had an unremediated material weakness ..... Page 37

Example H: An SEC registrant or member of a holding company system whose parent is an SEC registrant that did not include all material processes over statutory financial reporting addressed in its Section 404 report and had an unremediated material weakness noted ..... Page 39

Example I: An SEC registrant or member of a holding company system whose parent is an SEC registrant that had all material processes over statutory financial reporting addressed in its Section 404 report. However, they recently acquired another insurer that is not included in their assessment ..... Page 42

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EXAMPLE A: AN SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM WHOSE PARENT IS AN SEC REGISTRANT THAT HAD ALL MATERIAL CONTROL PROCESSES OVER STATUTORY FINANCIAL REPORTING ADDRESSED IN ITS SECTION 404 REPORT

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company Inc ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).* Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting for XYZ included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed)_____ (Date)_____
(Chief Executive Officer)

(Signed)_____ (Date)_____
(Chief Financial Officer)

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ATTACHMENT A

XYZ Holding Company, Inc.
Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X

For purposes of this addendum, the "Section 404 Report" means Management's Report on Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Form 10-K/20-F. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that there are no material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report.

ATTACHMENT B

XYZ Holding Company, Inc.
Management's Report of Internal Control over Financial Reporting
List of Companies that are part of the Group of insurers
Pursuant to [relevant state statute or Section 17 of the Model]

Name	NAIC No
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

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EXAMPLE B: AN SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM WHO IS A SEC REGISTRANT AND IS A NON-ACCELERATED FILER THAT HAD ALL MATERIAL CONTROL PROCESSES OVER STATUTORY REPORTING ADDRESSED IN ITS SECTION 404 REPORT. FOR THIS NON-ACCELERATED FILER, THE SECTION 404 REPORT DOES NOT REQUIRE THE REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING.

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model] as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17 of the Model] XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). This does not include a report of independent registered public accounting firm on internal control over financial reporting for XYZ, as it is not required for non-accelerated filers In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed)_____ (Date)_____
(Chief Executive Officer)

(Signed)_____ (Date)_____
(Chief Financial Officer)

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ATTACHMENT A

XYZ Holding Company, Inc.
Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X

For purposes of this filing, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting only contained in or incorporated by reference in the Company's Form 10-K/20-F. This does not include a report of independent registered public accounting firm on internal control over financial reporting, as it is not required for non-accelerated filers. Accordingly, as required by [relevant state statute or Section 17 of the Model], management of XYZ hereby affirms that there are no material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report.

ATTACHMENT B

XYZ Holding Company, Inc.
Management's Report of Internal Control over Financial Reporting
List of Companies that are part of the Group of insurers
Pursuant to [relevant state statute or Section 17 of the Model]

Name	NAIC No
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

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EXAMPLE C: AN SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM WHOSE PARENT IS AN SEC REGISTRANT THAT DID NOT HAVE ALL MATERIAL CONTROL PROCESSES OVER STATUTORY FINANCIAL REPORTING ADDRESSED IN ITS SECTION 404 REPORT

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model] as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting for XYZ included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed)_____ (Date)_____
(Chief Executive Officer)

(Signed)_____ (Date)_____
(Chief Financial Officer)

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ATTACHMENT A

XYZ Holding Company, Inc.
Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X

For purposes of this filing, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Company's Form 10-K/20-F. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that the only material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report are the processes discussed below. Management of XYZ hereby affirms that all other material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers were included in the Section 404 Report. The following statutory financial reporting processes were reviewed separately from the internal controls reported by the Group of insurers in its Section 404 report:

Significant Control Processes not tested due to Group Materiality Considerations

The Section 404 report excludes certain control processes deemed immaterial to individual insurance legal entities included within the Group of insurers. This exclusion was due to group materiality decisions made at the parent company level. These processes, and the legal entities within the Group of insurers impacted, are listed as follows:

Workers' Compensation Claims Processing – The HIJ claims processing system is utilized to process workers' compensation claims material to ABC Insurance Subsidiary and DEF Insurance Subsidiary.

Related Party Transactions Eliminated through Consolidation

The Section 404 report does not consider controls surrounding related party transactions as the effects of those transactions are eliminated through consolidation at the holding company financial statement level. Significant related party transactions, and the legal entities within the Group of insurers impacted, are listed as follows:

Affiliate reinsurance agreements – A significant amount of reinsurance coverage is obtained by ABC Insurance Subsidiary and DEF Insurance Subsidiary through contracts with XYZ Parent Company.

Management service agreements – ABC Insurance Subsidiary receives all of its management services through an agreement with XYZ Parent Company.

Tax allocation agreements – ABC Insurance Subsidiary and DEF Insurance Subsidiary are subject to an intercompany tax allocation agreement with XYZ Parent Company.

Deferred Income Taxes

Federal income taxes are provided for XYZ's estimated current and deferred liability. Deferred taxes are provided for differences between the financial statement and tax bases of assets and liabilities. Pursuant to *SSAP No. 101—Income Taxes*, changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in statutory surplus, while under GAAP/IFRS, these changes are included in income tax expense or benefit. Gross deferred tax assets not meeting the realization criteria outlined in SSAP No. 101 are not admitted.

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Nonadmitted Assets

Certain XYZ assets (principally furniture, equipment, prepaid expenses, agents' balances, and certain deferred tax assets) have been designated as nonadmitted assets under statutory accounting guidance (primarily in *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 20—Nonadmitted Assets*). Such nonadmitted assets are excluded from assets by a charge to statutory surplus. Under GAAP/IFRS, such amounts are carried at amortized cost with an appropriate valuation allowance, as necessary.

Asset Valuation Reserve ("AVR")

The AVR represents a statutory contingency reserve for life and health insurers for credit related risk on most invested assets, and is charged to surplus pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.* No such reserve is required under GAAP/IFRS accounting.

Interest Maintenance Reserve ("IMR")

The IMR represents the deferral of interest-related realized gains and losses, net of tax, on primarily fixed maturity investments, amortized into income over the remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.* No such reserve is required under GAAP/IFRS accounting.

Management of XYZ conducted an assessment of the internal controls over these processes and concluded that they were effective with respect to the audited statutory financial statements.

(Please note that this is not intended to be an all-inclusive list. It should only include material process that were not covered in the Section 404 Report. The facts and circumstances of each situation will determine the items to be included.)

ATTACHMENT B

XYZ Holding Company, Inc.
Management's Report of Internal Control over Financial Reporting
List of Companies that are part of the Group of insurers
Pursuant to [relevant state statute or Section 17 of the Model]

Name	NAIC No
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

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EXAMPLE D: AN SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM WHO IS A SEC REGISTRANT AND IS A NON-ACCLERATED FILER THAT DID NOT HAVE ALL MATERIAL CONTROL PROCESSES OVER STATUTORY FINANCIAL REPORTING ADDRESSED IN ITS SECTION 404 REPORT. FOR THESE NON-ACCELERATED FILERS, THE SECTION 404 REPORT DOES NOT REQUIRE THE REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING.

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model] as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17 of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). This does not include a report of independent registered public accounting firm on internal control over financial reporting for XYZ, as it is not required for non-accelerated filers. In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management's review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed)_____ (Date)_____
(Chief Executive Officer)

(Signed)_____ (Date)_____
(Chief Financial Officer)

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ATTACHMENT A

XYZ Holding Company, Inc.
Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X

For purposes of this filing, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting only contained in or incorporated by reference in the Company's Form 10-K/20-F. This does not include a report of independent registered public accounting firm on internal control over financial reporting, as it is not required for non-accelerated filers. Accordingly, as required by [relevant state statute or Section 17 of the Model], management of XYZ hereby affirms that the only material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report are the processes discussed below. Management of XYZ hereby affirms that all other material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers were included in the Section 404 Report.

Significant Control Processes not tested due to Group Materiality Considerations

The Section 404 report excludes certain control processes deemed material to individual insurance legal entities included within the Group of insurers. This exclusion was due to group materiality decisions made at the parent company level. These processes, and the legal entities within the Group of insurers impacted, are listed as follows:

Workers' Compensation Claims Processing – The HIJ claims processing system is utilized to process workers' compensation claims material to ABC Insurance Subsidiary and DEF Insurance Subsidiary.

Related Party Transactions Eliminated through Consolidation

The Section 404 report does not consider controls surrounding related party transactions as the effects of those transactions are eliminated through consolidation at the holding company financial statement level. Significant related party transactions, and the legal entities within the Group of insurers impacted, are listed as follows:

Affiliate reinsurance agreements – A significant amount of reinsurance coverage is obtained by ABC Insurance Subsidiary and DEF Insurance Subsidiary through contracts with XYZ Parent Company.

Management service agreements – ABC Insurance Subsidiary receives all of its management services through an agreement with XYZ Parent Company.

Tax allocation agreements – ABC Insurance Subsidiary and DEF Insurance Subsidiary are subject to an intercompany tax allocation agreement with XYZ Parent Company.

Deferred Income Taxes

Federal income taxes are provided for XYZ's estimated current and deferred liability. Deferred taxes are provided for differences between the financial statement and tax bases of assets and liabilities. Pursuant to *SSAP No. 101—Income Taxes*, changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in statutory surplus, while under GAAP/IFRS, these changes are included in income tax expense or benefit. Gross deferred tax assets not meeting the realization criteria outlined in SSAP No. 101 are not admitted.

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Nonadmitted Assets

Certain XYZ assets (principally furniture, equipment, prepaid expenses, agents' balances, and certain deferred tax assets) have been designated as nonadmitted assets under statutory accounting guidance (primarily in *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 20—Nonadmitted Assets*). Such nonadmitted assets are excluded from assets by a charge to statutory surplus. Under GAAP/IFRS, such amounts are carried at amortized cost with an appropriate valuation allowance, as necessary.

Asset Valuation Reserve ("AVR")

The AVR represents a statutory contingency reserve for life and health insurers for credit related risk on most invested assets, and is charged to surplus pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. No such reserve is required under GAAP/IFRS accounting.

Interest Maintenance Reserve ("IMR")

The IMR represents the deferral of interest-related realized gains and losses, net of tax, on primarily fixed maturity investments, amortized into income over the remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. No such reserve is required under GAAP/IFRS accounting.

Management of XYZ conducted an assessment of the internal controls over these processes and concluded that they were effective with respect to the audited statutory financial statements.

(Please note that this is not intended to be an all-inclusive list. It should only include material process that were not covered in the Section 404 Report. The facts and circumstances of each situation will determine the items to be included.)

ATTACHMENT B

XYZ Holding Company, Inc.
Management's Report of Internal Control over Financial Reporting
List of Companies that are part of the Group of insurers
Pursuant to [relevant state statute or Section 17 of the Model]

Name	NAIC No.
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

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EXAMPLE E: A NON-SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM THAT VOLUNTARILY COMPLIED WITH SECTION 404 OF THE SARBANES-OXLEY ACT AND PRODUCED A REPORT ON INTERNAL CONTROLS WHICH INCLUDED AN AUDITOR'S OPINION

Management's Report of Internal Control over Financial Reporting

As a non-SEC registrant, XYZ Holding Company, Inc. ("XYZ") is not required to prepare or file with the U.S. Securities and Exchange Commission a Sarbanes-Oxley Act Section 404 report on internal control over financial reporting. However, management has elected to prepare, and have audited by XYZ's independent certified public accountant, such a report for the fiscal year-ended December 31, 201X.

Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).* Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] the attached copy of XYZ's Section 404 Report for the fiscal year ended December 31, 201X, which includes Management's Report of Internal Control over Financial Reporting and report of independent registered public accounting firm on internal control over financial reporting for XYZ. In addition, an addendum (Attachment A) is included to this report that identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed)_____ (Date)_____
Chief Executive Officer)

(Signed)_____ (Date)_____
(Chief Financial Officer)

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ATTACHMENT A

XYZ Holding Company, Inc.
Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X

For purposes of this addendum, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Annual Report to Stockholders. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that there are no material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report.

ATTACHMENT B

XYZ Holding Company, Inc.
Management's Report of Internal Control over Financial Reporting
List of Companies that are part of the Group of insurers
Pursuant to [relevant state statute or Section 17 of the Model]

Name	NAIC No
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

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EXAMPLE F: A COMPANY [OR "GROUP OF INSURERS"] THAT IS NOT SUBJECT TO SECTION 404 AND UTILIZED THEIR OWN FRAMEWORK TO EVALUATE CONTROLS

Management's Report of Internal Control over Financial Reporting

[As a non-SEC registrant, XYZ Holding Company, Inc. ("XYZ") is not required to prepare or file with the U.S. Securities and Exchange Commission a Sarbanes-Oxley Act Section 404 report on internal control over financial reporting. Each of the insurance companies listed on Attachment A is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment A.]

Management of ABC Insurance Company [or XYZ] is responsible for establishing and maintaining adequate internal control over statutory financial reporting. The Company has established an internal control system designed to provide reasonable assurance regarding the fair presentation of statutory financial reporting. The Company developed its own internal framework for evaluating the effectiveness of internal control over statutory financial reporting. The Company's framework includes the identification and evaluation of the company's internal control environment and areas of potential material internal control risk, documentation of existing internal controls, monitoring and testing of those key controls, documentation of remedial actions planned or taken, if any, and communication of the findings of the evaluation by the Company's senior management to the Audit committee of the Board of Directors.

Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Company's internal control over statutory financial reporting, which included identifying, reviewing, monitoring and testing significant internal controls over statutory financial reporting. Based on our assessment under the above described approach and through diligent inquiry, management has concluded that the Company's internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Company's internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed)_____ (Date)_____
(Chief Executive Officer)

(Signed)_____ (Date)_____
(Chief Financial Officer)

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ATTACHMENT A

XYZ Holding Company, Inc.
Management's Report of Internal Control over Financial Reporting
List of Companies that are part of the Group of Insurers
Pursuant to [relevant state statute or Section 17 of the Model]

Name	NAIC No
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

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EXAMPLE G: AN SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM WHOSE PARENT IS AN SEC REGISTRANT THAT HAD ALL MATERIAL CONTROL PROCESSES ADDRESSED IN THEIR SECTION 404 REPORT AND HAD AN UNREMEDIATED MATERIAL WEAKNESS

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly-owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

A material weakness was noted in XYZ's internal control over financial reporting related to the calculation of insurance reserves. Due to the manner in which the data for homeowners policies are captured by the systems used in its Southeastern US regional office, changes in XYZ's estimate of insurance reserves for certain policies are not reviewed by XYZ's Actuarial Department prior to being recorded in the company's accounting records.

A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected on a timely basis. In connection with the weakness noted above, XYZ's management has taken remedial actions to change its procedures for coding policies issued in the states affected so that all homeowners policy data are included in the Actuarial Department review of estimate of insurance reserves. This change was effective on July 1, 20XX.

As a result of the unremediated material weakness described above, XYZ management has concluded that, as of December 31, 201X, XYZ's internal control over statutory financial reporting was not effective.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting for XYZ included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

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(Signed)_____ (Date)_____
(Chief Executive Officer)

(Signed)_____ (Date)_____
(Chief Financial Officer)

ATTACHMENT A

XYZ Holding Company, Inc.
Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X

For purposes of this addendum, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Form 10-K/20-F. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that there are no material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report.

ATTACHMENT B

XYZ Holding Company Inc.
Management's Report of Internal Control over Financial Reporting
List of Companies that are part of the Group of insurers
Pursuant to [relevant state statute or Section 17 of the Model]

Name	NAIC No
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

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EXAMPLE H: AN SEC REGISTRANT OR MEMBER OF A HOLDING COMPANY SYSTEM WHOSE PARENT IS AN SEC REGISTRANT THAT DID NOT INCLUDE ALL MATERIAL PROCESSES OVER STATUTORY FINANCIAL REPORTING ADDRESSED IN ITS SECTION 404 REPORT AND HAD AN UNREMEDIATED MATERIAL WEAKNESS NOTED

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly-owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness was noted in XYZ's internal control over financial reporting related to the calculation of insurance reserves. Due to the manner in which the data for homeowners policies are captured by the systems used in its Southeastern US regional office, changes in XYZ's estimate of insurance reserves for certain policies are not reviewed by XYZ's Actuarial Department prior to being recorded in the company's accounting records.

A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected on a timely basis. In connection with the assessment above, XYZ's management identified a material weakness as of December 31, 201X in the controls over the calculation of insurance reserves.

As a result of the unremediated material weakness described above, XYZ management has concluded that, as of December 31, 201X, XYZ's internal control over statutory financial reporting was not effective.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting for XYZ included in XYZ's Form 10-K for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

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(Signed)_____ (Date)_____
(Chief Executive Officer)

(Signed)_____ (Date)_____
(Chief Financial Officer)

ATTACHMENT A

XYZ Holding Company, Inc.
Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X

For purposes of this filing, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Company's Form 10-K/20-F. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that the only material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report are the processes discussed below. Management of XYZ hereby affirms that all other material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers were included in the Section 404 Report. The following statutory financial reporting processes were reviewed separately from the internal controls reported by the Group of insurers in its Section 404 report:

Significant Control Processes not tested due to Group Materiality Considerations

The Section 404 report excludes certain control processes deemed material to individual insurance legal entities included within the Group of insurers. This exclusion was due to group materiality decisions made at the parent company level. These processes, and the legal entities within the Group of insurers impacted, are listed as follows:

Workers' Compensation Claims Processing – The HIJ claims processing system is utilized to process workers' compensation claims material to ABC Insurance Subsidiary and DEF Insurance Subsidiary.

Related Party Transactions Eliminated through Consolidation

The Section 404 report does not consider controls surrounding related party transactions as the effects of those transactions are eliminated through consolidation at the holding company financial statement level. Significant related party transactions, and the legal entities within the Group of insurers impacted, are listed as follows:

Affiliate reinsurance agreements – A significant amount of reinsurance coverage is obtained by ABC Insurance Subsidiary and DEF Insurance Subsidiary through contracts with XYZ Parent Company.

Management service agreements – ABC Insurance Subsidiary receives all of its management services through an agreement with XYZ Parent Company.

Tax allocation agreements – ABC Insurance Subsidiary and DEF Insurance Subsidiary are subject to an intercompany tax allocation agreement with XYZ Parent Company.

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Deferred Income Taxes

Federal income taxes are provided for XYZ's estimated current and deferred liability. Deferred taxes are provided for differences between the financial statement and tax bases of assets and liabilities. Pursuant to *SSAP No. 101—Income Taxes*, changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in statutory surplus, while under GAAP/IFRS, these changes are included in income tax expense or benefit. Gross deferred tax assets not meeting the realization criteria outlined in SSAP No. 101 are not admitted.

Nonadmitted Assets

Certain XYZ assets (principally furniture, equipment, prepaid expenses, agents' balances, and certain deferred tax assets) have been designated as nonadmitted assets under statutory accounting guidance (primarily in *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 20—Nonadmitted Assets*). Such nonadmitted assets are excluded from assets by a charge to statutory surplus. Under GAAP/IFRS, such amounts are carried at amortized cost with an appropriate valuation allowance as necessary.

Asset Valuation Reserve ("AVR")

The AVR represents a statutory contingency reserve for life and health insurers for credit related risk on most invested assets, and is charged to surplus pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.* No such reserve is required under GAAP/IFRS accounting.

Interest Maintenance Reserve ("IMR")

The IMR represents the deferral of interest-related realized gains and losses, net of tax, on primarily fixed maturity investments, amortized into income over the remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.* No such reserve is required under GAAP/IFRS accounting.

Management of XYZ conducted an assessment of the internal controls over these processes and concluded that they were effective with respect to the audited statutory financial statements.

(Please note that this is not intended to be an all-inclusive list. It should only include material processes that were not covered in the Section 404 Report. The facts and circumstances of each situation will determine the items to be included.)

ATTACHMENT B

XYZ Holding Company, Inc.
Management's Report of Internal Control over Financial Reporting
List of Companies that are part of the Group of insurers
Pursuant to [relevant state statute or Section 17 of the Model]

Name	NAIC No
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

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EXAMPLE I: AN SEC REGISTRANT OR MEMBER OF A HOLDING COMPANY SYSTEM WHOSE PARENT IS AN SEC REGISTRANT THAT HAD ALL MATERIAL PROCESSES OVER STATUTORY FINANCIAL REPORTING ADDRESSED IN ITS SECTION 404 REPORT. HOWEVER, THEY RECENTLY ACQUIRED ANOTHER INSURER THAT IS NOT INCLUDED IN THEIR ASSESSMENT

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).* This assessment excluded an evaluation of internal controls over financial reporting for RST Insurance Company which was recently acquired. Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting for XYZ included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed)_____ (Date)_____
(Chief Executive Officer)
(Signed)_____ (Date)_____
(Chief Financial Officer)

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ATTACHMENT A

XYZ Holding Company, Inc.
Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X

For purposes of this addendum, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Form 10-K. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that there are no material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report.

ATTACHMENT B

XYZ Holding Company, Inc.
Management's Report of Internal Control over Financial Reporting
List of Companies that are part of the Group of insurers
Pursuant to [relevant state statute or Section 17 of the Model]

Name	NAIC No
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

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