

To: NAIC Members
From: Commissioner Al Gross (VA), Chair of the E Committee
Date: June 25, 2009
Re: Request for New Process for Selected E Committee Actions

Commissioner, Directors, Superintendents,

As you are aware, the technical groups within the Financial Condition (E) Committee (E Committee) routinely adopt changes to their handbooks, formulas, and other forms of guidance. The more significant changes are typically highlighted to the E Committee in the technical groups' reports provided at the national meetings, but most items are typically not pulled for separate voting unless the item is significant or controversial. This is due in part to the extreme volume of such changes by the technical groups, and also because in most cases the controversial issues are addressed before the item is considered by the Committee. Of course, members of E Committee and interested parties are given an opportunity to comment on any report provided to E Committee. Quarterly reports from the Committee to the membership typically only touch upon those items that are significant or controversial.

It has recently come to my attention that there are occasions when the NAIC updates its publications, or makes a particular technical position effective prior to the membership's adoption of my E Committee report. It is my understanding the NAIC has processes in place that would allow for changes to be made and users to be notified if a technical position was overturned by the membership. The E Committee recently discussed this issue, and although they recognize the need for any NAIC guidance to be adopted by the membership, they are concerned with being able to have guidance in place that addresses issues in a timely manner.

The E Committee is hereby requesting a new process be put in place in order to obtain the full membership's approval on these technical items, but obtain that approval more quickly than in the past. The reason is simple: more than ever before; the E Committee needs to have a process to get these technical changes to the industry and impacted parties as quickly as possible, so they can begin modifying their systems and processes for such changes. The following represents a highlight of the Committee's recommended new process:

Proposed New Process for Selected E Committee Actions

1. A list of technical items adopted by the E Committee would be provided to the Joint Executive Committee/Plenary within one week of the completion of the national meeting;
2. This list would only contain what the E Committee considers technical and routine, and would not include items that are significant by NAIC standards (e.g., it would not include proposed model laws, model regulations, or guidelines);
3. The list would be accompanied by a standard cover sheet that explains the process and the request for approval. This cover sheet would explain the intent of the process, and that any objections should not be simply educational since a deliberative process would have already existed relative to the item, and that objections would presumably point to larger policy issues for the organization;
4. The Joint Executive Committee/Plenary would have 7 to 10 days to review the list, and voice their objection of a specific item;
5. If no objections were raised on a particular item, or any of the items, each and all would be considered adopted by the Joint Executive Committee/Plenary, similar to the current consent agenda process;
6. If there was an objection on any one or multiple items, a joint Executive Committee/Plenary conference call would be scheduled on the particular item(s);
7. The other items would be considered adopted, and thus inserted into the appropriate publication and/or made available to the industry and other parties for implementation;

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8. The conference call would be used for discussion of the objection. Similar to how it is rare that any technical items adopted by the E Committee are reversed by the membership today, it is anticipated that objections and the need for a conference call would be rare with this process as well;
9. The minutes and committee reports would continue to be handled in the same manner.

The E Committee understands this is a considerable change in process, and can understand that other Committee's may propose similar processes. However, again it should be noted that we only suggest that this process be used for those things that we consider to be very technical (e.g. changes to the NAIC Blanks, Accounting Practices & Procedures Manual, Risk-Based Capital formulas, Financial Examination & Analysis Handbooks, etc.). This process would not pertain to model laws, model regulations, guidelines, or other items that would typically be pulled from the consent agenda and considered separately by the membership. This separate process for these technical changes is necessary to make sure regulators and the industry have the most relevant and timely information to help facilitate consistent, accurate financial information necessary to evaluate the financial condition of the insurer.

If the membership does not believe this new process is appropriate, we encourage the use of some other means of accomplishing the goal of timely action, including any of the following:

1. Move the Joint Executive/Plenary meeting date and time to occur after the E Committee Meeting;
2. Conduct a Joint Executive/Plenary conference call shortly after the national meeting in which the E Committee provides its report;
3. Allow a Joint Executive/Plenary e-mail vote shortly after the national meeting in which the E Committee report is considered for adoption.

Please don't hesitate to call me if you have any questions.

Thank you