



**STATE OF NEW YORK
INSURANCE DEPARTMENT**
25 BEAVER STREET
NEW YORK, NEW YORK 10004

NOTE: WITHDRAWN EFFECTIVE SEPTEMBER 1, 2004

**Circular Letter No. 11 (2000)
February 24, 2000**

TO: All licensed life insurers, fraternal benefit societies, charitable and segregated gift annuity societies, employee welfare funds, retirement systems, viatical settlement licensees, governmental variable supplements funds, property/casualty insurers, co-operative property/casualty insurers, financial guaranty insurers, mortgage guaranty insurers, title insurers, reciprocal insurers, accident and health insurers, Article 43 corporations, municipal cooperative health benefit plans, and rate service organizations; State Insurance Fund; Medical Malpractice Insurance Association; New York Property Insurance Underwriting Association; Motor Vehicle Accident Indemnification Corporation; Excess Line Association of New York; registered risk retention groups, service contract providers, and Public Health Law Article 44 health maintenance organizations and integrated delivery systems; and accredited reinsurers

RE: Codification Project

The purpose of this Circular Letter is to inform the industry of the intention of this Department to proceed with implementation of the new Codification rules, subject to any provisions in New York statute which conflict with particular points in the new Codification rules.

In December 1998, the National Association of Insurance Commissioners adopted a new Accounting Practices and Procedures Manual to be effective January 1, 2001. The Manual represents a Codification of Statutory Accounting Principles.

In June 1999, EX6 voted to expose the 1,040-page manual as a potential accreditation standard. The Subcommittee voted unanimously to expose the entire manual, including the Disclosure Requirements and the recognition of the states' authority to set accounting standards which may vary from Codification.

The purpose of the Codification of statutory accounting principles is to produce a comprehensive guide for regulators, insurers and auditors. Statutory accounting principles (SAP) prior to Codification did not always provide a consistent and complete basis of accounting and reporting. The prescribed statutory accounting model resulted in practices that varied from state to state. Insurers were often uncertain about what rules to follow and regulators were sometimes unfamiliar with the accounting rules followed by insurers in other states. As a result, financial statements were not always prepared on a comparable basis. The Codification project results in more comparable financial statements and in more complete disclosures, which will make regulators' analysis techniques more meaningful and effective. Codification will provide examiners and analysts with uniform accounting rules against which insurers' financial statements can be evaluated. Also, RBC will be reported more consistently under Codification.

As can be seen from the NAIC's Instructions to insurers for completing their 2001 annual statement forms (discussed below), Codification does not preempt state legislative and regulatory authority. Statutory financial statements will continue to be prepared on the basis of accounting practices prescribed or permitted by the states. Further, auditors will be permitted to continue to provide audit opinions on practices permitted by the Insurance Department of the state of domicile, even if those practices diverge from the Codification standards.

Section 307(a)(1) of the Insurance Law requires every insurer authorized in New York to file an annual

statement showing its financial condition in such form as prescribed by the Superintendent. Section 307(a)(2) permits the use of the annual statement form adopted from time to time by the NAIC. The NAIC's instructions to insurers for completing their 2001 annual statement forms include the following: "The annual statement is to be completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures Manual – version effective January 1, 2001 except to the extent that: (1) state law may differ, or (2) state rules or regulations require differences in reporting. If guidance is not available from those sources, the domiciliary state's insurance regulatory authority should be consulted."

Each change in accounting rules proposed by the Codification will need to be analyzed and discussed in order to determine its particular merits. Therefore, there may be a number of areas where New York statute or regulation does not present an impediment to implementation of a particular Codification rule, but the Department may nonetheless decide that it does not wish to implement the Codification rule.

I have established an internal committee to work on issues relating to Codification. The committee will be chaired by Stephen Maluk, Assistant Director of Policy, (212) 480-2299. The Property Bureau is represented by Paul Cohen, Supervising Examiner, (212) 480-5074; Joseph Fritsch, Principal Examiner, (212) 480-5130; and Bernard Ganley, Principal Examiner, (212) 480-5131. The Life Bureau is represented by Michael Molinaro, Assistant Chief Examiner, (212) 480-5032; and Dennis Fernez, Principal Examiner, (212) 480-4937. The Health Bureau is represented by David Doran, Principal Examiner, (212) 480-5046.

The committee invites comments from interested parties on the proposed adoption of the various Codification rules. Written comments should be addressed to Stephen Maluk, Assistant Director of Policy, New York State Insurance Department, 25 Beaver Street, New York, New York 10004. Please submit such comments by April 10, 2000.

Very truly yours,

Neil D. Levin
Superintendent of Insurance