

CROSS-PRACTICE ISSUES

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2019 Academy Legislative/Regulatory Review

The American Academy of Actuaries presents this summary of select significant regulatory and legislative developments in 2019 at the state, federal, and international levels of interest to the U.S. actuarial profession as a service to its members.

Introduction

The Academy focused on key public policy debates in 2019 regarding health care reform, pensions and retirement savings issues, financial services and insurance regulation, and regarding property and casualty insurance issues.

Prescription drug costs and price transparency were key issues for lawmakers in Congress in 2019. The Trump administration released several executive orders aimed at reducing regulatory barriers pertaining to health insurance and financial institutions.

The Academy continues to track the progress of legislative and regulatory updates that have carried into 2020. Many of the key policy issues the Academy worked on in 2019 will carry into the new year as well.

Practice Area Issues

Casualty Practice Issues

Flood Insurance

The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) issued a [final rule](#) on Jan. 24, 2019 requiring lenders to accept private flood insurance policies as defined by the Biggert-Waters Act in addition to government-backed policies. The rule went into effect on July 1, 2019. The OCC and FDIC originally proposed the rule in 2016, along with the Board of Governors of the Federal Reserve System (the Federal Reserve), the Farm Credit Administration (FCA), and the National Credit Union Administration (NCUA).

The National Flood Insurance Program (NFIP) received several short-term legislative reauthorizations over the course of the year, with the [latest](#) extending the program through Sept. 30, 2020. This most recent reauthorization marked the 15th short-term extension of the program since its last expiration on Sept. 30, 2017. Congress did not address any proposals to make substantive changes to the NFIP over the course of the year.

Crop Insurance

Congress passed and the president signed an appropriations [bill](#) into law in June 2019 that included a provision to ensure crop Congress passed and the president insurance coverage for hemp under the federal crop insurance program beginning in 2020. Previous legislation signed into law in December 2018 removed hemp as a controlled substance and disallowing hemp farmers to apply for crop insurance.

Terrorism Risk Insurance

Congress passed and the president signed an omnibus spending [bill](#) to fund the federal government through fiscal year 2020, which included a seven-year extension for the Terrorism Risk Insurance Program (TRIP). Legislation for the extension of the program had previously passed the [House](#), and the Senate was considering [S. 2877](#), which reauthorized the Terrorism Risk Insurance Act (TRIA) through Dec. 31, 2027. S. 2877 was included in the omnibus bill. In addition to the extension, the legislation also directs the Department of the Treasury (Treasury) to include an evaluation of the availability and affordability of terrorism risk insurance in its biennial report on TRIA and directs the Government Accountability Office (GAO) to analyze and address the vulnerabilities and potential costs of cyber terrorism and to make recommendations for future legislation. In October, the Academy's Casualty Practice Council (CPC) submitted comment letters to the [U.S. Committee on Financial Services](#) and the [U.S. Senate Committee on Banking, Housing, and Urban Affairs \(Senate Banking\)](#) in support of a long-term extension of TRIA and identifying cyber risk as an area that needed further assessment.

Child Victim Act State Regulations

Twenty-two states and the District of Columbia have passed laws that went into effect in 2019 that extend or eliminate the statute of limitations for child-sex abuse claims against alleged abusers or the institutions they were affiliated with. For example, New York State's Department of Financial Services [issued regulations](#) instructing insurance companies on how to handle and report liability claims under the Child Victim Act. Other states have taken similar action.

Statements of Actuarial Opinion

The National Association of Insurance Commissioners (NAIC) concluded their revision of definition of qualification and requirements for actuaries who prepare Statements of Actuarial Opinion for p/c insurance companies. This process included a review of the p/c basic education programs of both the Casualty Actuarial Society and the Society of Actuaries, an examination of Continuing Education certifications, and a consideration of how Qualified Actuaries' credentials are presented to insurance company boards of directors and audit committees. The Academy was involved at all stages of the NAIC's deliberations and submitted numerous comment letters for the record. An example of one of its comment letters can be found [here](#).

Predictive Analytics

The NAIC continued to discuss a variety of issues associated with rate filings that include predictive models, primarily focusing on p/c insurance, especially personal auto insurance. The Academy's Casualty Practice Council's Automobile Insurance Committee presented a day-long [seminar](#) on predictive analytics at the NAIC's annual Insurance Summit on June 6, 2019. Rich Gibson, the Academy's senior casualty fellow, submitted [two comment](#) letters on the NAIC's Casualty Actuarial and Statistical Task Force paper as it was being drafted, regarding best practices in Regulatory Review of Predictive Models.

Health Practice Issues

Affordable Care Act (ACA)

The ACA faced several changes and challenges from the U.S. Congress, the Trump administration, and U.S. courts throughout 2019. Key developments included:

Challenges to the ACA

- The 5th U.S. Circuit Court of Appeals issued a [decision](#) in the Texas v. Azar case on Dec. 18, 2019 ruling the individual mandate of the ACA unconstitutional. In a 2-1 decision, the court struck down the requirement that people must obtain a basic level of health insurance under the ACA, citing that the mandate cannot stand after the tax penalty for not having insurance was reduced to zero as part of the *Tax Cuts and Jobs Act of 2017*. The court also remanded [the case](#) back to the U.S. District Court for the North District of Texas to determine which parts of the law would stand, as U.S. District Judge Reed O'Connor struck down the law entirely last year. O'Connor argued that the individual mandate was inseverable from the rest of the ACA, thus declaring the entire law invalid.
- In response to the Dec. 18 decision, 19 states petitioned the ruling to the U.S. Supreme Court and asked for expedited consideration. The Supreme Court ordered the Trump administration and states challenging the ACA to respond to the appeal by Jan. 10, 2020; and on Jan. 21, the Supreme Court issued a statement that they will not expedite review of the case. However, they did not rule out the possibility of reviewing the case at a later date.
- Prior to the 5th U.S. Circuit Court of Appeals decision on Texas v. Azar, the U.S. Department of Justice (DOJ) submitted a [letter](#) to the court stating its determination that an appealed ruling in Texas v. Azar should be affirmed, thereby invalidating the ACA entirely.
- The Congress passed and the president signed an [omnibus spending bill](#) in December, which included a repeal of three health care taxes originally enacted under the ACA. The legislation repeals an excise tax on high-cost employer-sponsored health coverage (also known as the Cadillac tax), and the medical device excise tax, effective immediately. The bill also repeals the health insurance providers fee (known as the health insurance tax), which had a moratorium placed on it during 2019. The fee will go back into effect for 2020, and then will be eliminated permanently beginning in 2021.
- The U.S. House of Representatives passed [H.R. 986](#), *Protecting Americans with Preexisting Conditions Act of 2019*, which would prohibit [issued guidance](#) regarding state

proposals to waive provisions of the ACA from being implemented or enforced. The bill has now moved to the U.S. Senate.

- The U.S. House of Representatives passed [H.R. 987](#), *Strengthening Health Care and Lowering Prescription Drug Costs Act*, which would reverse federal funding cuts to the Centers for Medicare and Medicaid Services (CMS) for ACA education, marketing, and outreach efforts. The bill has now moved to the U.S. Senate.

Regulatory Activities

- The White House Council of Economic Advisers (CEA) [released a report](#) on Feb. 7, 2019, examining the effects of three regulatory reforms to the Affordable Care Act (ACA). They include the December 2017 reduction of the penalty for individuals without health insurance coverage (known as the individual mandate) to zero; a [June 2018](#) rule allowing more small businesses to form association health plans; and an [August 2018](#) rule expanding the availability of short-term, limited-duration insurance (STLDI) plans. According to the CEA, these changes would generate “benefits to Americans” worth about \$450 billion over the next decade. The CEA report indicates that these reforms will primarily benefit lower- and middle-income consumers, while imposing costs on some middle- and higher-income consumers in the form of higher insurance premiums.
- Sen. Ron Wyden and Rep. Frank Pallone Jr. sent a [letter](#) to the GAO on Feb. 6, 2019, requesting an [evaluation of guidance](#) issued by CMS and the departments of the Treasury and Health and Human Services (HHS) in October 2018. The letter asks GAO to evaluate whether the guidance—which authorizes states to waive certain requirements of the ACA Section 1332 (State Innovation Waivers)—constitutes a rule under the Congressional Review Act (CRA), which would subject the guidance to congressional review.
- The Centers for Medicare & Medicaid Services (CMS) released its Health Insurance Exchanges 2019 Open Enrollment [Report](#) on Mar. 25, 2019, summarizing health plan selections made on the individual Exchanges during the 2019 Open Enrollment Period for all 50 states. For the 39 states that use the HealthCare.gov platform, additional data was collected on age, gender, location, race and ethnicity, and household income.
- The Centers for Medicare & Medicaid Services (CMS) [announced](#) on Dec. 20 that 8.3 million Americans enrolled in health care coverage for the 2020 Open Enrollment Period through the federal health insurance exchange established by the ACA. This marks a slight decline from the 2019 enrollment numbers, when 8.5 million Americans enrolled for health care coverage through the federal exchange.
- CMS published its [HHS Risk Adjustment Validation \(HHS-RADV\) White Paper](#) to examine the first payment year of HHS-RADV, and outline potential options to modify certain aspects of the HHS-RADV including:
 - Methodology for enrollee sampling;
 - Amending the current process that determine whether an issuer is an outlier;
 - Altering the error rate calculation that determines outlier issuer’ risk score adjustments; and
 - Changing the benefit year application of HHS-RADV results.

The purpose of HHS-RADV is to ensure the accuracy of data submitted by health insurance issuers for the purposes of risk adjustment transfer calculations.

Access to Public Insurance Plans

The Academy's Health Practice Council issued a publication, [*Expanding Access to Public Insurance Plans*](#), outlining four possible approaches to implementing a public health insurance plan, as well as key design elements that would need to be specified for a public plan to be fully evaluated and implemented. The issue paper examined approaches of many of the proposals brought forth to supplement efforts to strengthen insurance markets under the ACA or to replace the ACA marketplaces and/or other health insurance programs altogether.

Health Care Costs

The CMS Office of the Actuary in December 2019 [released](#) its annual total national health care expenditures from 2018, illustrating official estimates of total spending through private health insurance, Medicare, Medicaid, and out-of-pocket spending. The report demonstrates that health care spending in the United States grew at a rate of 4.6 percent to \$3.6 trillion, or \$11,172 per person. The growth in health care spending for 2018 was faster than in 2017 when healthcare spending increased 4.2 percent. This growth was primarily due to the reinstatement of the health insurance tax in 2018. The share of gross domestic product represented by health care spending accounted for 17.7 percent, down from 17.9 percent in 2017.

In response to President Trump's June 24 [executive order](#), *Improving Price and Quality Transparency in American Healthcare to Put Patients First*, the Centers for Medicare & Medicaid Services (CMS) released two regulations on Nov. 15, 2019. One finalized [rule](#) would require hospitals to make their standard charges public, and a [proposed rule](#) would require both the employer and the individual and small group market insurers to disclose the rates they negotiate with hospitals and doctors. Both rules would mandate pricing information be made publicly available. The Transparency in Coverage Proposed Rule would require health insurers disclose to participants, beneficiaries, and enrollees personalized out-of-pocket costs, negotiated rates between their network providers, and payments of allowed amount to out-of-network providers. Under the Outpatient Prospective Payment System Hospital Price Transparency Requirements final rule, scheduled to go into effect Jan. 1, 2021, hospitals are also required to post negotiated rates and pricing online. If they do not comply with the regulations, hospitals may face fines up to \$300 per day.

Medicaid

CMS approved a Section 1115 Medicaid [waiver request](#) from Arizona on Jan. 18, 2019, allowing the state to implement a requirement for work or community engagement activities as a condition of eligibility for its Medicaid program. The approved waiver request was the first to include an exemption of this requirement for members of federally recognized tribes. Several other additional states have been granted Section 1115 Medicaid waivers; however, many states have been blocked by U.S. courts from implementing work and volunteer requirements for certain Medicaid recipients including [Michigan](#), [Arkansas](#), [Kentucky](#), and [New Hampshire](#).

The Academy's Medicaid and Long-Term Care Insurance Work Group published an issue brief in February 2019, titled, [*Medicaid and Long-Term Care Insurance*](#), which explores the potential for catastrophic long-term care costs as a major financial risk, particularly facing older Americans, and helps clarify the options currently available for mitigating the risk.

CMS and the Children's Health Insurance Program (CHIP) issued an [informational bulletin](#), adopting standards for the calculation and reporting of a medical loss ratio (MLR) applicable to Medicaid and CHIP managed care contracts in May 2019. The Academy's Medicaid Subcommittee submitted [comments](#) to provide clarification to certain sections of the bulletin.

The Academy's Medicaid Subcommittee submitted [comments](#) to CMS on Jan. 14, 2019, in response to a November 14, 2018 [proposed rule](#) that would make changes to managed care regulations for the Medicaid and CHIP programs.

CMS released a [proposed rule](#) on Nov. 18, 2019 that would establish new reporting requirements for states to provide CMS with certain information on supplemental payments to Medicaid providers, including payments approved by Medicaid state plans. Public comments were due to CMS by Jan. 17, 2020.

Medicare

CMS [announced](#) a new Medicare Part D payment model, as well as an updated Medicare Advantage (MA) payment model, aimed at lowering prescription drug costs for Medicare on Jan. 18, 2019. The new Part D Modernization Model will require plans, beginning in the 2020 plan year, to take on a greater share of risks in the "catastrophic phase" of spending. The updated MA Value-Based Insurance Design Model includes changes for the 2020 plan year, such as: allowing plans to provide reduced cost sharing and additional benefits to enrollees in a more targeted fashion; allowing plans to offer higher-value individual rewards and incentives for beneficiaries to improve their health; and allowing plans to utilize access to telehealth services, as long as an in-person option remains, to meet a wider range of network requirements.

CMS released a [proposed rule](#) on Aug. 9, 2019 aimed at improving price transparency and lowering costs for Medicare beneficiaries. Provisions in the proposed rule would require hospitals to make information about standard charges, commonly used billing codes, and payer-specific negotiated costs for commonly available services. CMS accepted public comment through Sept. 27, 2019.

The Trump administration issued an [executive order](#) on Oct. 3, 2019 titled, "Protecting and Improving Medicare for Our Nation's Seniors," prompted by opposition to the Medicare for All Act of 2019. The executive order proposes the removal of regulations that present "unnecessary barriers" to private health insurance contracts that allow Medicare beneficiaries to obtain care of their choosing.

Prescription Drug Costs

HHS released a [proposed rule](#) on Feb. 6, 2019, aimed at addressing prescription drug costs. The rule would exclude rebates on prescription drugs paid by manufacturers to pharmacy benefit managers (PBMs), Part D plans, and Medicaid managed-care organizations from safe harbor protection under the Anti-Kickback Statute; and create a new safe harbor for prescription drug discounts offered directly to patients, as well as for fixed fee service arrangements between drug manufacturers and PBMs. The Congressional Budget Office (CBO) released an [analysis](#) on the proposed rule on May 2, 2019, estimating that federal spending for Medicare would increase by approximately \$170 billion, and Medicaid spending would increase by approximately \$7 billion over a 10-year period. The Trump Administration withdrew this proposed rule on July 10, 2019. The Academy's Medicare Subcommittee submitted [comments](#) to HHS regarding the proposed rule. A fact sheet on the proposed rule is available [here](#).

The U.S. House of Representatives passed H.R. 3, the [Elijah E. Cummings Lower Drug Costs Now Act of 2019](#), on Dec. 12, 2019 that would focus on efforts to lower prescription drug costs through direct negotiation between CMS and pharmaceutical companies, among other measures. The bill would expand the authority of the secretary of HHS to negotiate a minimum of 50 and maximum of 250 commonly utilized drugs for Medicare and the private market, as well as implement a \$2,000 out-of-pocket limit on prescription drug costs for Medicare Part D. The bill has now moved to the Senate, where Senate Majority Leader Mitch McConnell has expressed that he does not intend to hold a vote on the bill. The Office of Management and Budget released a [statement of opposition](#) to the legislation on Dec. 10, promising the president's veto of the bill in its current form if it were presented to him.

A [bill](#) was introduced in the U.S. Senate on Sept. 25, 2019, that would amend the Social Security Act to lower prescription drug prices for Medicare and Medicaid. S. 2543, the *Prescription Drug Pricing Reduction Act of 2019*, focuses on inflation caps and provisions requiring transparency on pharmaceutical pricing, such as rebate disclosures from pharmacy benefit managers.

Short-Term, Limited-Duration Insurance (STLDI) Plans

The U.S. District Court for the District of Columbia [issued a ruling](#) on July 19, 2019, allowing a Trump administration policy that expands the sale of short-term, limited duration insurance (STLDI) plans to remain in place. The [rule](#), issued in 2018, redefined STLDI, and expanded STLDI plans duration to 12 months, with renewals that last up to three years.

Life Practice Issues

Principle-Based Reserving (PBR)

The National Association of Insurance Commissioner's (NAIC) Valuation Analysis (E) Working Group (VAWG) on Dec. 20, 2019, released a review of the 2018 VM-20 Reserve Supplements and the Principle-Based Reserve (PBR) Actuarial Reports filed for calendar year end 2018; and voted to release the [2018 Principle-Based Reserves \(PBR\) Review Report](#) on Dec. 6, 2019. The report provides a summary of the process used by VAWG to conduct the review and documents the major finding that resulted from this review.

The Life Principle-Based Approach Practice Note Work Group finalized on Jan. 18, 2019, its updated practice note, [*Life Principle-Based Reserves \(PBR\) Under VM-20*](#), for 2019. The purpose of the publication is to assist actuaries with principle-based life reserve valuation practices for individual life insurance in response to the NAIC's detailed requirement for PBR for Life Products in its 2018 edition of the Valuation Manual (VM-20) from Nov. 22, 2017.

Lifetime Income

The Academy's Lifetime Income Risk Joint Committee submitted [comments](#) on Sept. 11, 2019, to the Employee Benefits Security Administration (EBSA) of the Department of Labor (DOL) in response to the ERISA Advisory Council's [report](#), *Lifetime Income Solutions as a Qualified Default Investment Alternative (QDIA)—Focus on Decumulation and Rollovers*, from November 2018. The comments address potential concerns that may aid in the provision of lifetime income within defined contribution (DC) plans, such as 401(k)s.

Risk-Based Capital

The RBC Tax Reform Work Group submitted [comments](#) on Feb. 19, 2019, to the [NAIC](#) to provide insight to insurance regulators on how to interpret capital ratio as a result of the [new tax code](#).

Pension Practice Issues

Multiemployer Plans

The Pension Benefit Guaranty Corporation (PBGC) issued a [final rule](#) in May regarding terminated and insolvent multiemployer pension plans. The final rule went into effect on July 1, 2019, and is intended to simplify reporting and disclosure requirements for terminated and/or insolvent multiemployer plans. The rule eliminated a requirement to provide annual updates on insolvency benefit levels and allows smaller plans terminated by mass withdrawal to perform actuarial valuations less frequently. In addition, the final rule adds new filing requirements for actuarial valuations and withdrawal liability information.

In July, the U.S. House of Representatives passed legislation, the [Rehabilitation for Multiemployer Pensions Act of 2019](#), that is intended to provide assistance to critical and declining multiemployer pension plans, according to the bill's sponsors. If enacted, the bill would establish a Pension Rehabilitation Administration within the U.S. Department of the Treasury that would be authorized to finance loans to multiemployer pension plans in critical and declining status. The bill would also provide funding to the PBGC to be used to provide grants to failing pension plans. The Senate has not yet taken action on this legislation.

U.S. Sen. Grassley, chair of the Senate Finance Committee, and Sen. Alexander, chair of the Senate Health Education, Labor and Pensions Committee, released a [proposal](#) in November 2019 that would provide relief to certain multiemployer pension plans, as well as provide reforms to prevent future funding shortfalls. The proposal, titled "Multiemployer Pension Recapitalization and Reform Plan," calls for federal contributions to multiemployer pension plans and creates new authority for the PBGC. The Academy's Multiemployer Plans Committee submitted [comments](#) to the proposal, addressing initial potential areas of concern.

Josh Shapiro, Academy pension vice president, [testified](#) before the U.S. House Subcommittee on Health Employment, Labor and Pensions of the Committee on Education and Labor on March 7, 2019, in a hearing titled “The Cost of Inaction: Why Congress Must Address the Multiemployer Pension Crisis.” In his written and oral testimony, Shapiro provided an objective actuarial perspective on the financial risks facing certain multiemployer plans and the PBGC’s multiemployer program. The Pension Practice Council submitted written [responses](#) to questions from subcommittee members during the hearing.

In July and August, the Academy hosted a series of briefings on Capitol Hill to provide a comprehensive look at the multiemployer pension crisis. Three sessions were held over the course of roughly three weeks:

- [Session one](#) provided background and the current state of the multiemployer pension crisis to address failing multiemployer plans;
- [Session two](#) provided possible approaches for addressing failing plans; and
- [Session three](#) focused on potential long-term reforms to the multiemployer system to stabilize plans and minimize the possibility that there will be another crisis in the future.

Pension Benefit Guaranty Corporation (PBGC)

The PBGC released its fiscal year (FY) 2019 [Annual Report](#) on Nov. 18, 2019, reporting that the Multiemployer Insurance Program deficit increased to \$65.2 billion, from \$53.9 billion in FY 2018, while the Single-Employer program demonstrated strong improvements in fiscal solvency with a net positive of \$8.7 billion. This was an increase from the \$2.4 billion at the end of FY 2018. According to the PBGC, the Multiemployer Program is likely to become insolvent in FY 2025. The report also notes that the Multiemployer Program is currently responsible for insuring the pensions of 10.8 million Americans. Members of the Academy’s Multiemployer Plans Committee [met](#) with officials of the Treasury, Department of Labor (DOL), and the PBGC to discuss the likelihood of insolvency of the program, among other matters related to multiemployer pension plans.

The PBGC published a proposed [regulation](#) on April 5, 2019, regarding simplified methods and other aspects of the computing withdrawal liability under the Multiemployer Pension Reform Act of 2014. The Academy’s Multiemployer Plans Committee submitted [comments](#) to the PBGC in response to the proposed regulation, identifying potential areas of confusion.

Retirement Security and Lifetime Income

The U.S. Congress passed and the president signed an omnibus [bill](#) in December that contained the legislation, [H.R. 1994](#), the *Setting Every Community Up for Retirement Enhancement Act* (SECURE Act). The bill provides several changes to employer-sponsored retirement plans and individual retirement accounts (IRAs), and features provisions including. After the U.S. House passed the legislation in May, the Academy issued a detailed [alert](#) of the bill, highlighting the specific changes provided.

Treasury and IRS released [proposed regulations](#) on Nov. 8, 2019, that life expectancy and distribution tables should be updated to reflect current mortality data. The regulation notes persons calculating required minimum distributions under the proposed regulations would use the updated Uniform Lifetime Table that reflects the longer life expectancies based upon mortality rate for 2021.

Social Security Solvency

The Social Security Board of Trustees issued the [2019 Social Security Trustees' Report](#) on April 22, 2019. According to the report, the combined retirement program (Old-Age and Survivors Insurance [OASI]) and disability program (Disability Insurance [DI]) of the Social Security Trust Funds will have depleted funding in 2035, one year later than projected in last year's report. Following 2035, the trust funds will have revenue sufficient to fund about three-quarters of scheduled benefits. Social Security's total cost is projected to exceed its total income (including interest) in 2020 for the first time since 1982, and to remain higher throughout the remainder of the projection period. The 75-year actuarial deficit for the combined OASDI trust funds is estimated at 2.78 percent of taxable payroll, down from 2.84 percent projected in last year's report.

Risk Management and Financial Reporting Issues

Federal Insurance Office (FIO)

Former Acting FIO Director Steven Seitz, assumed the role of Director in February 2019. Seitz had served as the Acting FIO Director since November 2018, when former FIO Director Steve Dreyer left office on Nov. 16, 2018.

The FIO released its [Annual Report on the Insurance Industry](#) in September 2019, providing an overview of the FIO's responsibilities and summarized its key activities since last year's annual report. The report is organized by four key themes, including:

- The proper evaluation of systemic risk;
- Ensuring effective regulation and government processes;
- Rationalizing international engagement; and
- Promoting economic growth and informed choices

Each section of the report highlights developments in domestic and international insurance policy, regulations, and financial markets. The report also includes an analysis of the insurance industry's financial performance during calendar year 2018, and the domestic insurance market outlook for 2019.

H.R. 4592, [The International Insurance Standards Act of 2019](#) was introduced in the U.S. House of Representatives on Oct. 1, 2019. It would place restrictions on international insurance agreements made by the federal government to preserve the state-based system of insurance regulation and provide great oversight of and transparency on international insurance standards setting processes. The House has not held a vote on the legislation.

Financial Stability Oversight Council (FSOC)

The Financial Stability Oversight Council (FSOC) published its [2019 annual report](#), providing an overview of the FSOC's activities, as well as describing significant financial market and regulatory developments over the past year including insurance and accounting regulations and standards. The 2019 report focuses on potential emerging threats to U.S. financial stability and provides recommendations to properly address risks that could negatively impact the economy. The FSOC's recommendations include:

- Increased information sharing to address cyber threats;
- Preparation to transition from LIBOR (London Inter-Bank Offered Rate) becomes unavailable;
- Coordination between federal and state regulators for oversight of nonbank financial companies involved in the origination and servicing of residential mortgages, and to avoid regulatory overlap and modernize outdated regulations.

The FSOC issued [final guidance](#) regarding nonbank financial company designations on Dec. 4, 2019. The guidance implements several changes to existing regulations for nonbank designations, including greater oversight of financial regulators to monitor financial markets and development to better address potential risks to financial stability. The Academy's Financial Regulatory Reform Task Force submitted [comments](#) to the FSOC in response to the its proposed guidance originally issued in March 2019.

Office of Financial Research (OFR)

The OFR published its [2019 Annual Report to Congress](#) on Dec. 11, 2019, describing key research findings and highlighting priorities for 2020 and beyond. The report describes the current level of overall financial risk as "remaining in the medium range," reflecting a mix of high, moderate, and low risks to the financial system, and summarizes a variety of current and emerging financial risks, including:

- Market and macroeconomic risks are elevated;
- Solvency and leverage risks remain low;
- Credit and contagion risks remain moderate;
- Cybersecurity risk remains elevated but is lower than last year due to reduced market capitalization.

International Insurance

The International Association of Insurance Supervisors' (IAIS) adopted initial global frameworks for supervision of internationally active insurance groups and processes for reducing risks to the insurance sector on Nov. 14, 2019. The adopted reforms included:

- The Common Framework (ComFrame), which establishes standards on and guidance to supervising Internationally Active Insurance Groups (IAIGs);
- The development of the Insurance Capital Standards (ICS) to create a common language for IAIGs to implement global group capital standards; and
- The Holistic Framework for the assessment and mitigation of systemic risk in the insurance section, which will be implemented in 2020.

The IAIS also adopted a definition of comparable outcomes regarding the Aggregation Method (AM) in implementing the ICS. The ICS approach relies on the creation of a single consolidated group capital requirement. Meanwhile the AM, developed by the United States, would work by aggregating jurisdictional regulatory required capital and available capital to a single measure by scaling key metrics to a uniform basis. This method would allow the industry to adapt to many different models of product availability and international approaches to long-term risk management.

The IAIS published the [IAIS Strategic Plan for 2020-2024](#) in June 2019, which identifies trends and developments in insurance markets and insurance supervision. These trends include policy issues such as fintech, cyber risk, climate risk, and challenges associated with sustainable development. According to the chair of the IAIS Executive Committee, this outlook offers a new approach to developing global insurance standards and implementing and contributing to global financial stability.

International Monetary Fund (IMF)

The International Monetary Fund (IMF) released its [2019 Annual Report](#) in April 2019, which provides an overview of the IMF's key roles in monitoring major factors affecting financial stability on an international level. The report also identifies new risks that have emerged as a result of unregulated portions of the financial system, and examines the results of its economic surveillance of international financial activity on a regional basis. Much of the analysis of the report assesses current accounting and financial reporting standards used across global markets and financial institutions.

Accounting Standards

The International Accounting Standards Board (IASB) [published](#) their proposed annual improvements to International Financial Reporting Standards (IFRS) on May 21, 2019. The deadline for public comment was Aug. 20, 2019. The proposed amendments are related to four IFRS Standards, including IFRS 1 for *First-time Adoption of International Financial Reporting Standards* and IFRS 9 relating to *Financial Instruments*.

In addition to their proposed annual improvements, the IASB published their [Exposure Draft Amendments](#) to IFRS 17 in June 2019, which would have short-term and long-term implications on the existing IFRS 17 regulation relating to insurance contract liabilities. The Academy's Financial Reporting Committee submitted [comments](#) to the IASB in response to the IFRS 17 draft amendments in September 2019.