



JUL 23 2001

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, Governor
Connie L. O'Connell, Commissioner

July 23, 2001

Wisconsin.gov

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HONORABLE JUDITH ROBSON
SENATE CO-CHAIRPERSON
JOINT COMM FOR REVIEW OF ADM RULES
SOUTH STATE CAPITOL RM 15
MADISON WI 53702

Re: Section Ins 50.06 (2) (f), Wis. Adm. Code, relating to notes to financial statements

Clearinghouse Rule No. 01-050

Dear Senator Robson:

I am enclosing a copy of this proposed rule which has been submitted to the presiding officers of the legislative houses under s. 227.19 (2), Wis. Stat. A copy of the report required under s. 227.19 (3), Wis. Stat., is also enclosed.

Sincerely,

Connie L. O'Connell
Commissioner

CLO:SM
Attachment: 1 copy rule & legislative report

**PROPOSED ORDER OF THE OFFICE OF THE COMMISSIONER OF INSURANCE AMENDING A
RULE**

To amend Ins 50.06 (2) (f) and repeal 50.06 (2) (f) 1. & 2. Wis. Adm. Code, relating to notes to financial statements.

ANALYSIS PREPARED BY THE OFFICE OF THE COMMISSIONER OF INSURANCE

Statutory authority: ss. 600.01(2), 601.41(3), 601.42, & 623.02, Stats.

Statutes interpreted: ss. 600.01 & 623.02, Stats.

Analysis

This rule change relates to the required footnotes in the CPA audit report on the statutory financial statements of insurance companies.

Under the existing Ins 50.06(2)(f), the footnotes include those required by the NAIC (National Association of Insurance Commissioners) annual statement instructions and by generally accepted accounting principles. The footnotes shall also include: (1) a reconciliation of the differences, if any, between the audited statutory financial statements and the annual statement filed by the company under Ins 50.20, and (2) a summary of the ownership and relationships between the insurance company and all affiliates.

The NAIC has adopted a more detailed accounting manual ("Codification") for insurance companies for use beginning in 2001. The NAIC Accounting Practices & Procedures Manual specifically identifies all the required footnotes, including the ownership and relationships between the insurance company and all affiliates. Therefore, the language in the existing rule referring to footnotes required by generally accepted accounting practices, and to the ownership and relationships with affiliates, can be deleted and replaced with the reference to the NAIC Accounting Practices and Procedures Manual. The remainder of the changes to the text involve moving subsection (1) into the body of the text because subsection (2) is deleted.

OCI considers this change to be nonsubstantive. It follows the NAIC's changes to its model audit rule as a result of Codification. The proposed change has been reviewed and commented upon by national CPA firms and insurance company trade associations as the NAIC revised its model audit rule. The proposed amendment is identical to the NAIC's amended audit rule, which is expected to be adopted in every state. The national uniformity of the amended audit rule in each state will minimize the costs for CPA firms to complete their required audits and for the multi-state insurance company groups who pay for them.

SECTION 1. Section Ins 50.06 (2) (f) (intro) is renumbered s. Ins 50.06 (2) (f) and amended to read:

Ins 50.06 (2) (f) Notes to financial statements. These notes shall be those required by the appropriate national association of insurance commissioners' annual statement instructions and any other notes required by generally accepted accounting principles and accounting practices and procedures manual. The notes shall also include; a reconciliation of differences, if any, between the audited statutory financial statements and the annual statement filed pursuant to subch. II with a written description of the nature of these differences.

SECTION 2. Section Ins 50.06 (2) (f) 1. & 2. Are repealed.

These changes will take effect on the first day of the month after publication, as provided in s. 227.22(2)(intro.), Stats.

Dated at Madison, Wisconsin, this _____ day of July, 2001.

Connie L. O'Connell
Commissioner of Insurance



WISCONSIN LEGISLATIVE COUNCIL RULES CLEARINGHOUSE

Ronald Sklansky
Clearinghouse Director

Richard Sweet
Clearinghouse Assistant Director

Terry C. Anderson
Legislative Council Director

Laura D. Rose
Legislative Council Deputy Director

CLEARINGHOUSE REPORT TO AGENCY

[THIS REPORT HAS BEEN PREPARED PURSUANT TO S. 227.15, STATS. THIS IS A REPORT ON A RULE AS ORIGINALLY PROPOSED BY THE AGENCY; THE REPORT MAY NOT REFLECT THE FINAL CONTENT OF THE RULE IN FINAL DRAFT FORM AS IT WILL BE SUBMITTED TO THE LEGISLATURE. THIS REPORT CONSTITUTES A REVIEW OF, BUT NOT APPROVAL OR DISAPPROVAL OF, THE SUBSTANTIVE CONTENT AND TECHNICAL ACCURACY OF THE RULE.]

CLEARINGHOUSE RULE 01-050

AN ORDER to repeal Ins 50.06 (2) (f) 1. and 2.; and to renumber and amend Ins 50.06 (2) (f) (intro.), relating to notes to financial statements.

Submitted by **OFFICE OF THE COMMISSIONER OF INSURANCE**

05-04-01 RECEIVED BY LEGISLATIVE COUNCIL.

06-01-01 REPORT SENT TO AGENCY.

RNS:JLK:jal;rv

LEGISLATIVE COUNCIL RULES CLEARINGHOUSE REPORT

This rule has been reviewed by the Rules Clearinghouse. Based on that review, comments are reported as noted below:

1. STATUTORY AUTHORITY [s. 227.15 (2) (a)]

Comment Attached YES NO

2. FORM, STYLE AND PLACEMENT IN ADMINISTRATIVE CODE [s. 227.15 (2) (c)]

Comment Attached YES NO

3. CONFLICT WITH OR DUPLICATION OF EXISTING RULES [s. 227.15 (2) (d)]

Comment Attached YES NO

4. ADEQUACY OF REFERENCES TO RELATED STATUTES, RULES AND FORMS
[s. 227.15 (2) (e)]

Comment Attached YES NO

5. CLARITY, GRAMMAR, PUNCTUATION AND USE OF PLAIN LANGUAGE [s. 227.15 (2) (f)]

Comment Attached YES NO

6. POTENTIAL CONFLICTS WITH, AND COMPARABILITY TO, RELATED FEDERAL
REGULATIONS [s. 227.15 (2) (g)]

Comment Attached YES NO

7. COMPLIANCE WITH PERMIT ACTION DEADLINE REQUIREMENTS [s. 227.15 (2) (h)]

Comment Attached YES NO



WISCONSIN LEGISLATIVE COUNCIL RULES CLEARINGHOUSE

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CLEARINGHOUSE RULE 01-050

Comments

[NOTE: All citations to "Manual" in the comments below are to the Administrative Rules Procedures Manual, prepared by the Revisor of Statutes Bureau and the Legislative Council Staff, dated September 1998.]

2. Form, Style and Placement in Administrative Code

a. SECTION 1 indicates that "Section Ins 50.06 (2) (f) is amended to read:". It should indicate that "Section Ins 50.06 (2) (f) (intro.) is renumbered s. Ins 50.06 (2) (f) and amended to read:". Also, "Ins 50.06 (2)" should precede "(f)" in the text of the rule.

b. In the phrase "Notes to the financial statements." in s. Ins 50.06 (2) (f), the word "the" should either be omitted entirely or underscored because it is not in the current rule. [See s. 1.06 (1), Manual.]

c. Section Ins 50.06 (2) (f) refers to "naic." If it is used, the acronym should be capitalized. However, the acronym should not be used unless it is defined. [See s. 1.01 (8), Manual.]

d. The material "and naic accounting practices and procedures manual." should be inserted following the stricken-through material, not preceding it. [See s. 1.06 (1), Manual.] Following this insertion, the word "And" is not capitalized in the current rule and should not be capitalized in the stricken portion. This provision could be drafted as follows: ". . . instructions and any other notes required by generally accepted accounting principles and national association of insurance commissioners' accounting practices and procedures manual. The notes. . .".

e. In s. Ins 50.06 (2) (f), the word “include” should not be underscored because it is in the current rule. However, a colon should be inserted following “include” and should be shown as stricken. [See s. 1.06, Manual.]

f. In the last line of SECTION 1, “subchapter II” should be changed to “subch. II”. [See s. 1.07 (2), Manual.]

g. Section Ins 50.06 (2) (f) includes a new provision specifying that notes to financial statements are those required by the National Association of Insurance Commissioners’ Accounting Practices and Procedures Manual. With the consent of the Attorney General and the Revisor of Statutes, an agency may incorporate standards, established by technical societies and organizations of recognized national standing, by reference in rules without reproduction of the standards in full. Consent for incorporation is granted only if the rule is of limited public interest and the incorporated standards are readily available in published form. The analysis to the rule must indicate that consent has been given.

Also, a rule incorporating standards by reference must state how the incorporated material may be obtained. This should be done in a note following the provision of the rule. Moreover, the materials containing the standards must be filed at the Office of the Commissioner of Insurance, the Secretary of State, and the Revisor of Statutes. [See s. 2.08 (1), Manual.]

5. Clarity, Grammar, Punctuation and Use of Plain Language

In the next-to-last line of SECTION 1, should “annual statement” be pluralized?



State of Wisconsin / OFFICE OF THE COMMISSIONER OF

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July 16, 2001

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REPORT ON Section Ins 50.06 (2) (f), Wis. Adm. Code,
relating to notes to financial statements

Clearinghouse Rule No 01-050
Submitted Under s. 227.19 (3), Stats.
The proposed rule-making order is attached.

(a) Statement of need for the proposed rule

see analysis attached to rule

(b) Modifications made in proposed rule based on testimony at public hearing:

none

(c) Persons who appeared or registered regarding the proposed rule:

Appearances For:

none

Appearances Against:

none

Appearances For Information:

none

Registrations For:

none

Registrations Against:

none

Registrations Neither for nor against:

Joe Kachelski, 10 S Doty, Madison WI 53703, Wisconsin Association of Health Plans

Letters received:

none

(d) Response to Legislative Council staff recommendations

All comments were complied with and corrected except the following:

Comment 2. g. Current Chapter Ins 50 was promulgated in 1993 as part of an extensive revision of financial rules to incorporate standards developed by the National Association of Insurance Commissioners ("NAIC"). Current Ins 50.20, for example, already references the NAIC Practices and Procedures Manual. Thus the reference to NAIC standards is not new and was already incorporated into Chapter 50, and many other rules of the Commissioner, when those rules were subjected to the promulgation process.

(e) Regulatory flexibility analysis

1. No issues were raised by small businesses during the hearing on the proposed rule.
2. The proposed rule does not impose any additional reporting requirements on small businesses.
3. The proposed rule does not require any additional measures or investments by small businesses.
4. No methods specified under s. 227.114 (2), Stats., are included in the proposed rule.

(f) Fiscal Effect

See fiscal estimate attached to proposed rule.

Enclosure: Legislative Council Staff Recommendations

5006 Rule Legislative Report 1.Doc