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**M E M O R A N D U M**

August 6, 2001

TO: Senate Committee on Insurance, Tourism and Transportation  
 FR: Senator Roger Breske, Chair  
 RE: Proposed Clearinghouse Rule 01-050; *Relating to: notes to financial statements.*

Clearinghouse Rule 01-050 was recently referred to the Senate Committee on Insurance, Tourism and Transportation. For your reference, I have included the analysis from the Office of the Commissioner of Insurance below. If you would like to request a hearing, please contact Beth in my office before *Friday, August 17, 2001.*

*Analysis by the Office of the Commissioner of Insurance*

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 referring to footnotes required by generally accepted accounting practices, and to the ownership and relationships with affiliates, can be deleted and replaced 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 rule 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 association 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.