

## Rule Summary and Fiscal Analysis

### Part A - General Questions

**Rule Number:** 3901-1-67

**Rule Type:** New

**Rule Title/Tagline:** Alternative derivative and reserve accounting practices.

**Agency Name:** Department of Insurance

**Division:**

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#### I. Rule Summary

1. **Is this a five year rule review?** No
  - A. **What is the rule's five year review date?**
2. **Is this rule the result of recent legislation?** No
3. **What statute is this rule being promulgated under?** 119.03
4. **What statute(s) grant rule writing authority?** 3901.77, 3903.722, 3903.723, 3903.724, 3903.725, 3903.726, 3903.727, 3903.728, 3903.7211
5. **What statute(s) does the rule implement or amplify?** 3901.77 and 3903.72 to 3903.7211
6. **What are the reasons for proposing the rule?**

The purpose of this rule is to allow insurance companies to utilize certain alternative derivative and reserve accounting practices for eligible derivative instruments and indexed products, respectively, in order to better match derivative and reserve accounting as it relates to interest crediting for indexed products and to provide for a more true and fair representation of the capital position and net gain from operations of insurance companies that offer or have in force indexed products.

- 7. Summarize the rule's content, and if this is an amended rule, also summarize the rule's changes.**

This rule addresses the mismatches related to the changes in value of an eligible derivative instrument as compared to the interest accrual in the reserve calculation for the underlying indexed product in two ways. This rule provides insurance companies with the ability, once certain criteria are met, to: (1) account for eligible derivative instruments using the amortized cost method, and (2) make an election at a policy level to use a reserve calculation methodology for indexed annuity products under which interest credits based upon one or more external indices are included in the reserve only after those interest credits have been credited to the contract holder under the terms of the annuity contract. In addition, regardless of the use of the ability provided for in the previous sentence, this rule provides insurance companies with the ability to record changes in, and settlement of, eligible derivative instruments through net investment income in the summary of operations.

- 8. Does the rule incorporate material by reference? No**
- 9. If the rule incorporates material by reference and the agency claims the material is exempt pursuant to R.C. 121.75, please explain the basis for the exemption and how an individual can find the referenced material.**

*Not Applicable*

- 10. If revising or re-filing the rule, please indicate the changes made in the revised or re-filed version of the rule.**

*Not Applicable*

## **II. Fiscal Analysis**

- 11. Please estimate the increase / decrease in the agency's revenues or expenditures in the current biennium due to this rule.**

This will have no impact on revenues or expenditures.

0.00

Not applicable.

- 12. What are the estimated costs of compliance for all persons and/or organizations directly affected by the rule?**

Application of this rule is not mandatory; this rule provides insurance companies an option to utilize alternative accounting practices. There are no estimated costs of compliance for any person and/or organization directly affected by this rule if this rule is not utilized by an insurance company. Utilization of this rule is elected by an insurance company.

13. **Does the rule increase local government costs? (If yes, you must complete an RSFA Part B).** No
14. **Does the rule regulate environmental protection? (If yes, you must complete an RSFA Part C).** No
15. **If the rule imposes a regulation fee, explain how the fee directly relates to your agency's cost in regulating the individual or business.**

Not Applicable.

### **III. Common Sense Initiative (CSI) Questions**

16. **Was this rule filed with the Common Sense Initiative Office?** No
17. **Does this rule have an adverse impact on business?** No

- A. **Does this rule require a license, permit, or any other prior authorization to engage in or operate a line of business?** No

Application of this rule is not mandatory; this rule provides insurance companies an option to utilize alternative accounting practices. This rule does not require a license, permit, or any other prior authorization to engage in or operate a line of business if this rule is not utilized by an insurance company. Utilization of this rule is elected by an insurance company.

- B. **Does this rule impose a criminal penalty, a civil penalty, or another sanction, or create a cause of action, for failure to comply with its terms?** No

Application of this rule is not mandatory; this rule provides insurance companies an option to utilize alternative accounting practices. This rule does not impose a criminal penalty, a civil penalty, or another sanction, or create a cause of action, if this rule is not utilized by an insurance company. Utilization of this rule is elected by an insurance company.

- C. **Does this rule require specific expenditures or the report of information as a condition of compliance?** No

Application of this rule is not mandatory; this rule provides insurance companies an option to utilize alternative accounting practices. This rule does not require specific expenditures or the report of information as a condition of compliance if this rule is not utilized by an insurance company. Utilization of this rule is elected by an insurance company.

- D. Is it likely that the rule will directly reduce the revenue or increase the expenses of the lines of business of which it will apply or applies? No**

Application of this rule is not mandatory; this rule provides insurance companies an option to utilize certain accounting practices. This rule will not directly reduce the revenue or increase the expenses of the lines of business of which it will apply if this rule is not utilized by an insurance company. Utilization of this rule is elected by an insurance company.

**IV. Regulatory Restrictions (This section only applies to agencies indicated in R.C. 121.95 (A))**

- 18. Are you adding a new or removing an existing regulatory restriction as defined in R.C. 121.95? No**

- A. How many new regulatory restrictions do you propose adding?**

Not Applicable

- B. How many existing regulatory restrictions do you propose removing?**

Not Applicable