



Updated January 15, 2019

TO: DOMESTIC INSURERS USING THE NAIC FRATERNAL, HEALTH,
LIFE, PROPERTY & CASUALTY, OR TITLE BLANK AND
INSTRUCTIONS

SUBJECT: **REQUESTS FOR EXEMPTION FROM ANNUAL AUDITED
FINANCIAL REPORT AND REQUIRED RELATED INFORMATION
[31 PA Code § 147]**

FROM: FINANCIAL ANALYSIS DIVISION

Under 31 Pa. Code, Chapter 147 (“Chapter 147”), the Pennsylvania Insurance Department (“Department”) is requiring the submission of an annual audited financial report and related information. The regulation is available at [Chapter 147](#). An implementation guide is published as Appendix G in the NAIC’s *Accounting Practices and Procedures Manual*.

Detailed notes regarding the reporting requirements in Chapter 147 are available on the Department’s website at **Services for Insurance Companies**, under **Financial Filing Requirements**. Select your *Licensed Company Type*. Go to the heading **Audited Financial Reports**, then select **Audit/Internal Control Related Reports**.

Annual Audited Financial Report Exemption

Insurers that meet the criteria in § 147.13(c) - (f) are exempt from filing an annual audited financial report and do not need to apply for exemption.

Consolidated or Combined Audits

Under § 147.7(a), an insurer may apply for approval to file consolidated or combined financial reports in lieu of separate annual audited reports. Applications must specify which of the criteria in § 147.7(a) applies, list the names of the insurers in the pool and be submitted by January 31.

CPA Prohibited Non-Auditing Services Exemption

Annual audited financial reports must be prepared by a qualified independent CPA. A person or accounting firm that provides the insurer, contemporaneously with the audit, any of the non-audit services in § 147.6(b)(6) is not considered independent.

Under § 147.6(h)(3), an insurer with less than \$100 million in direct written and assumed premium, in a calendar year, may apply for exemption from the provisions in § 147.6(b)(6) on the basis of financial or organizational hardship.

Applications for an exemption must specify the type of non-audit service(s) under § 147.6(b)(6)(i) – (viii) being provided by the CPA, explain why compliance would constitute a financial or organizational hardship, and be submitted by January 31.

CPA Rotation and Cooling-Off Requirement Relief

Annual audited financial reports must be prepared by a qualified independent CPA. A person involved in the previous year's audit who is currently holding one of several positions with the insurer described in § 147.6(b)(5) is not considered independent. In addition, under § 147.6(d), a qualified independent CPA's lead partner or other person responsible for an insurer's audit may not act in that capacity for more than 5 consecutive years.

Under § 147.6(h)(1), an insurer may apply for relief on the basis of unusual circumstances, from one or both of the provisions relating to rotation, § 147.6(b)(5) and § 147.6(d). Applications for relief must explain the unusual circumstances, be filed by January 31, and include the following:

1. The number of partners, the expertise of the partners or the number of insurance clients in the currently registered accounting firm,
2. The premium volume of the insurer, and
3. The number of jurisdictions in which the insurer transacts business

To maintain independence, only one rotational relief will be granted to a partner after completing the 5 consecutive years.

Insurer Audit Committee Designation Exemption

Every insurer required to file an annual audited financial report must establish an audit committee. The requirements for designating an audit committee and selecting persons as members of the audit committee are in § 147.3a(b) - (d).

Under § 147.3a (g)(3), the audit committee designation requirements in § 147.3a(b) - (d) do not apply to insurers subject to 40 P.S. § 991.1405(c)(4) and (5) of the law relating to Insurance Holding Companies, Sarbanes Oxley compliant entities or direct or indirect wholly owned subsidiaries of Sarbanes Oxley compliant entities. Insurers that meet these criteria do not need to apply for exemption.

Insurers not exempt under § 147.3a(g)(3), from the audit committee designation requirements in § 147.3a(b) and (c), may apply for an exemption under § 147.3a(g)(1) on the basis of financial or organizational hardship if the insurers have direct written and assumed

premiums less than \$500 million, excluding premiums reinsured with the Federal Crop Insurance Corporation and the Federal Flood Program. Applications for exemption must explain why compliance would constitute a financial or organizational hardship and be submitted by January 31.

Insurer Audit Committee Independence Exemption

Every insurer required to file an annual audited financial report must establish an audit committee. Under § 147.3a(g)(3), the audit committee independence requirements in § 147.3a(e) do not apply to insurers subject to 40 P.S. § 991.1405(c)(4) and (5) of the law relating to Insurance Holding Companies, Sarbanes Oxley compliant entities or direct or indirect wholly owned subsidiaries of Sarbanes Oxley compliant entities. Insurers that meet these criteria do not need to apply for exemption.

Insurers not exempt under § 147.3a(g)(3), from the audit committee independence requirements in § 147.3a(e), may apply for the exemption in § 147.3a (g)(1) on the basis of financial or organizational hardship if the insurers have direct written and assumed premiums less than \$500 million, excluding premiums reinsured with the Federal Crop Insurance Corporation and the Federal Flood Program. Applications for exemption must explain why compliance would constitute a financial or organizational hardship and be submitted by January 31.

Insurer Audit Committee Oversight Responsibilities Exemption

Every insurer required to file an annual audited financial report must establish an audit committee. Insurers may apply for exemption under § 147.3a(g)(1) from the audit committee oversight responsibilities in § 147.3a(f), on the basis of financial or organizational hardship if the insurers have direct written and assumed premiums less than \$500 million, excluding premiums reinsured with the Federal Crop Insurance Corporation and the Federal Flood Program. Applications for exemption must explain why compliance would constitute a financial or organizational hardship and be submitted by January 31.

Filing Requirements

Filings required under the criteria enumerated above must be filed within the stipulated timeframes and addressed to the ***attention of the company's assigned Financial Analyst*** to:

Exemption from Audited Financial Statements
Financial Analysis Division
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120