

STATE OF CONNECTICUT  
**REGULATION**

**IMPORTANT:** Read Instructions on bottom of Certification Page before completing this Form. Failure to comply with instructions may cause disapproval of proposed Regulations.

5930

NAME OF AGENCY  
INSURANCE DEPARTMENT

Concerning

SUBJECT MATTER OF REGULATION

INSURANCE DEPARTMENT  
STATE OF CONNECTICUT  
2009 SEP 10 A 6:34

**Annual Audited Financial Reports**

**SECTION 1**

Section 38a-54-6 of the Regulations of Connecticut State Agencies is amended to read as follows:

**Sec. 38a-54-6. Qualifications of independent certified public accountant**

(a) The Commissioner shall not recognize any person or firm as a qualified independent certified public accountant if the person or firm: (1) is not in good standing with the AICPA and in all states in which the accountant is licensed to practice, or, for a Canadian or British company, that is not a chartered accountant; or (2) has either directly or indirectly entered into an agreement of indemnity or release from liability (collectively referred to as "indemnification") with respect to the audit of the insurer.

(b) Except as otherwise provided herein, the Commissioner shall recognize an independent certified public accountant as qualified in accordance with Sections 38a-54-1 to 38a-54-14, inclusive, of the Regulations of Connecticut State Agencies as long as he or she conforms to the standards of his or her profession, as contained in the Code of Professional Ethics of the AICPA and Rules and Regulations and Code of Ethics and Rules of Professional Conduct of the Connecticut State Board of Accountancy, or similar code.

(c) A qualified independent certified public accountant may enter into an agreement with an insurer to have disputes relating to an audit resolved by mediation or arbitration. However, in the event of a delinquency proceeding commenced against the insurer under Chapter 704c of the Connecticut General Statutes, the mediation or arbitration provisions shall operate at the option of the statutory successor.

(d) The lead or coordinating audit partner having primary responsibility for the audit may not act in that capacity for more than five (5) consecutive years. The person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of five (5) consecutive years. An insurer may make application to the Commissioner for relief from the above rotation requirement on the basis of unusual circumstances. This application shall be made at least thirty (30) days before the end of the calendar year. The Commissioner may consider the following factors in determining if the relief sought should be granted:

- (1) number of partners, expertise of the partners or the number of insurance clients in the currently registered firm;
- (2) premium volume of the insurer; or
- (3) number of jurisdictions in which the insurer transacts business.

The requirements of this subsection shall become effective on [July 29, 1996.] January 1, 2010.

(e) An insurer shall file, with its annual statement filing, the approval for relief as provided in subsection (d) of this section with the states that it is licensed in or doing business in and with the NAIC. If the non-domestic state accepts electronic filing with the NAIC, the insurer shall file the approval in an electronic format acceptable to the NAIC.

(f) The Commissioner shall neither recognize as a qualified independent certified public accountant, nor accept any annual audited financial report prepared in whole or in part by, any person who:

- (1) has been convicted of fraud, bribery, a violation of the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. Sections 1961- 1968, or any dishonest conduct or practices under federal or state law;
- (2) has been found to have violated the insurance laws of this State with respect to any previous reports submitted under Sections 38a-54-1 to 38a-54-14, inclusive, of the Regulations of Connecticut State Agencies; or
- (3) has demonstrated a pattern or practice of failing to detect or disclose material information in previous reports filed under the provisions of Sections 38a-54-1 to 38a-54-14, inclusive, of the Regulations of Connecticut State Agencies.

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(g) The Insurance Commissioner may, as provided in Section 38a-16 of the Connecticut General Statutes and the Rules of Practice of the Insurance Department, hold a hearing to determine whether an independent certified public accountant is qualified and, considering the evidence presented, may rule that the accountant is not qualified for purposes of expressing his or her opinion on the financial statements in the annual audited financial report made pursuant to Section 38a-54-3 of the Regulations of Connecticut State Agencies and require the insurer to replace the accountant with another whose relationship with the insurer is qualified within the meaning of this section.

(h) (1) The Commissioner shall not recognize an independent certified public accountant as qualified, nor accept an annual audited financial report prepared in whole or in part by an accountant who provides to an insurer, contemporaneously with the audit, the following non-audit services:

(A) Bookkeeping or other services related to the accounting records or financial statements of the insurer;

(B) Financial information systems design and implementation;

(C) Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;

(D) Actuarially-oriented advisory services involving the determination of amounts recorded in the financial statements. The accountant may assist an insurer in understanding the methods, assumptions and inputs used in the determination of amounts recorded in the financial statement only if it is reasonable to conclude that the services provided will not be subject to audit procedures during an audit of the insurer's financial statements. An accountant's actuary may also issue an actuarial opinion or certification on an insurer's reserves if the following conditions have been met:

(i) Neither the accountant nor the accountant's actuary has performed any management functions or made any management decisions;

(ii) The insurer has competent personnel, or engages a third party actuary, to estimate the reserves for which management takes responsibility; and

(iii) The accountant's actuary tests the reasonableness of the reserves after the insurer's management has determined the amount of the reserves;

(E) Internal audit outsourcing services;

(F) Management functions or human resources;

(G) Broker or dealer, investment advisor, or investment banking services;

(H) Legal services or expert services unrelated to the audit; or

(I) Any other services that the Commissioner determines, by regulation, are impermissible.

(2) To be considered independent with respect to services provided by the qualified independent certified public accountant, the accountant shall not function in the role of management, audit his own work, or serve in an advocacy role for the insurer.

(i) Insurers having direct written and assumed premiums of less [that] than \$100,000,000 in any calendar year may request an exemption from subsection (h)(1) of this section. The insurer shall file with the Commissioner a written statement discussing the reasons why the insurer should be exempt from these provisions. If the Commissioner finds, upon review of this statement, that compliance with said subsection would constitute a financial or organizational hardship upon the insurer, an exemption may be granted.

(j) A qualified independent certified public accountant who performs the audit may engage in other non-audit services, including tax services, that are not described in subsection (h)(1) of this section or that do not conflict with subsection (h)(2) of this section, only if the activity is approved in advance by the audit committee, in accordance with subsection (k) of this section.

(k) All auditing services and non-audit services provided to an insurer by the qualified independent certified public accountant of the insurer shall be preapproved by the audit committee. The preapproval requirement is waived with respect to non-audit services if the insurer is a SOX compliant entity or a direct or indirect wholly-owned subsidiary of a SOX compliant entity or:

(1) The aggregate amount of all such non-audit services provided to the insurer constitutes not more than five percent (5%) of the total amount of fees paid by the insurer to its qualified independent certified public accountant during the fiscal year in which the non-audit services are provided;

(2) The services were not recognized by the insurer at the time of the engagement to be non-audit services; and

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(3) The services are promptly brought to the attention of the audit committee and approved prior to the completion of the audit by the audit committee or by one or more members of the audit committee who are members of the board of directors to whom authority to grant such approvals has been delegated by the audit committee pursuant to subsection (l) of this section.

(l) The audit committee may delegate to one or more designated members of the audit committee who are members of the board of directors the authority to grant pre-approvals required by subsection (k) of this section. The decisions of any members to whom this authority is delegated shall be presented to the full audit committee at each of its scheduled meetings.

(m) (1) The Commissioner shall not recognize an independent certified public accountant as qualified for a particular insurer if a member of the board, president, chief executive officer, comptroller, chief financial officer, chief accounting officer, or any person serving in an equivalent position for that insurer, was employed by the independent certified public accountant and participated in the audit of that insurer during the one-year period preceding the date that the most current statutory audit opinion is due. This subsection shall only apply to partners and senior managers involved in the audit. An insurer may make written application to the Commissioner for relief from this subsection on the basis of unusual circumstances.

(2) The insurer shall file, with its annual statement filing, the approval for relief from subsection (m)(1) of this section with the states that it is licensed in or doing business in and the NAIC. If the non-domestic state accepts electronic filing with the NAIC, the insurer shall file the approval in an electronic format acceptable to the NAIC.

(n) The requirements of subsections (h) through (m), inclusive, of this section shall be effective for audits in the year beginning January 1, 2010.

**Statement of Purpose:** To update the provisions of regulations concerning annual audited financial reports.

**A. The problems, issues or circumstances that the regulation proposes to address.**

The revisions amend the regulation to correct effective date and applicability changes.

**B. A summary of the main provisions of the regulation.**

Changes effective dates for applicability to financial reporting changes.

**C. The legal effects of the regulation, including all ways that the regulation would change existing regulations or other laws.**

No other laws or regulations will be affected.

**CERTIFICATION**

R-39 REV. 1/77

5930

Be it known that the foregoing:

Page 4 of 4 pages

Regulations  Emergency Regulations

Are:

Adopted  Amended as hereinabove stated  Repealed

By the aforesaid agency pursuant to:

Sections 38a-8 and 38a-54 of the General Statutes.

Section \_\_\_\_\_ of the General Statutes, as amended by Public Act No. \_\_\_\_\_ of the \_\_\_\_\_ Public Acts.

Public Act No. \_\_\_\_\_ of the Public Acts.

After publication in the Connecticut Law Journal on May 19, 2009 and \_\_\_\_\_ of the notice of the proposal to:

Adopt  Amend  Repeal such regulations

(If applicable):  And the holding of an advertised public hearing on \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_

WHEREFORE, the foregoing regulations are hereby:

Adopted  Amended as hereinabove stated  Repealed

Effective:

When filed with the Secretary of the State.

(OR)

The \_\_\_\_\_ day of \_\_\_\_\_.

In Witness Whereof:	DATE <u>6/23/09</u>	SIGNED ( <u>Head of Board, Agency or Commission</u> ) <i>William R. Sullivan</i>	OFFICIAL TITLE, DULY AUTHORIZED INSURANCE COMMISSIONER
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Approved by the Attorney General as to legal sufficiency In accordance with Sec. 4-169, as amended, C. G. S. :	SIGNED <i>William B. Sullivan</i>	DATE <u>6/29/09</u>	OFFICIAL TITLE, DULY AUTHORIZED ASSOC. ATTY. GENERAL
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- Approved \*
- Disapproved
- Disapproved in part, (Indicate Section Numbers disapproved only)
- Rejected without prejudice.

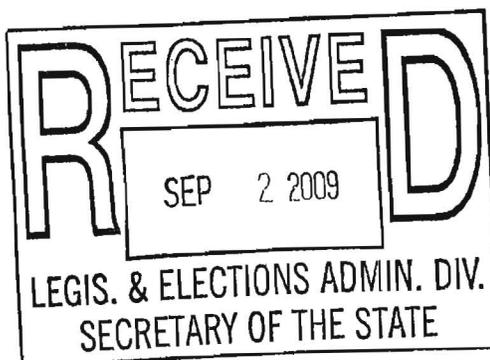
By the Legislative Regulation Review Committee in accordance With Sec. 4-170, as amended, of the General Statutes.	DATE <u>8/25/09</u>	SIGNED ( <u>Clerk of the Legislative Regulation Review Committee</u> ) <i>Pamela B. Booth, Administrator</i>
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Two certified copies received and filed, and one such copy forwarded to the Commission on Official Legal Publications in accordance with Section 4-172, as amended, of the General Statutes.

DATE <u>9-2-2009</u>	SIGNED ( <u>Secretary of the State</u> ) <i>Susan Bysiewicz</i>	BY <i>[Signature]</i>
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INSTRUCTION

1. One copy of all regulations for adoption, amendment or repeal, except emergency regulations, must be presented to the Attorney General for his determination of legal sufficiency. Section 4-169 of the General Statutes.
2. Seventeen copies of all regulations for adoption, amendment or repeal, except emergency regulations, must be presented to the standing Legislative Regulation Review Committee for its approval. Section 4-170 of the General Statutes.
3. Each regulation must be in the form intended for publication and must include the appropriate regulation section number and section heading. Section 4-172 of the General Statutes.
4. Indicate by "(NEW)" in heading if new regulation. Amended regulations must contain new language in capitol letters and deleted language in brackets. Section 4-170 of the General Statutes.



2009 SEP -2 AM 11:57  
 LEGISLATION & ELECTIONS  
 ADMINISTRATION DIVISION

5930

<p>Regulations OF <b>Department of Insurance</b></p>
<p>CONCERNING <b>Annual Audited Financial Reports</b></p>
<p>Approved by the Attorney General <b>June 29, 2009</b></p>
<p>Approved by the Legislative Regulation Review Committee of General Assembly  <b>August 25, 2009</b></p>
<p>Received and filed in the Office of the Secretary of the State  September 2, 2009  <b>Effective Date: September 2, 2009</b></p>
<p>Published in the Connecticut Law Journal</p>