

AMENDMENT OF THE CAPTIVE INSURANCE REGULATION

Pursuant to the authority vested in me by the FSM Code, Title 17, Section 102, the FSM Captive Insurance Regulations originally adopted on December 18, 2008 and further amended on February 9, 2016 are further amended by amending sections "VI" and "XIII" to read, as follows:

VI. All Captives shall have an annual audit, which shall be part of the Captive's annual report of financial condition, prepared by an Independent Certified Public Accountant, approved by the Commissioner, and shall file such audited financial report with the Commissioner within six (6) months following the fiscal year-end of the Captive. A Class 3 core captive and affiliated class 3 member captives may file a single consolidated annual report. The annual audit shall consist of the following

- A. **Opinion of Independent Certified Public Accountant**
 1. Financial statements shall be examined by the independent certified public accountant in accordance with generally accepted auditing standards as determined by the Institutes of Chartered Accountants, American Institute of Certified Public Accountants, or Japanese Institute of Certified Public Accountants.
 2. The opinion of the independent certified public accountant shall cover all years presented.
 3. The opinion shall be addressed to the board of directors of the Captive on stationery of the accountant showing the address of issuance shall bear the original manual signatures and shall be dated.
 4. The opinion shall contain an evaluation of management (including the members of the board of directors, officers and/or insurance manager of the Captive) experience, ability and control.
- B. **Report of Evaluation of Internal Controls**
 1. This report shall include an evaluation of the internal controls of the Captive relating to the methods and procedures used in the securing of assets and the reliability of the financial records, including but not limited to such controls as the system of authorization and approval and the separation of duties.
 2. The review shall be conducted in accordance with generally accepted auditing standards and the report filed with the Commissioner.
- C. **Accountant's Letter**
 1. The independent certified public accountant shall furnish the Board of Directors of the Captive, for inclusion in the filing of the audited annual report, a letter stating:
 - a) That he is independent with respect to the Captive, its parent and subsidiaries and conforms to the standards of his profession as

contained in the Code of Professional Ethics and pronouncements of the American Institute of Certified Public Accountants, Japan Institute of Certified Public Accountants, Institute of Chartered Accountants or other such professional accountancy body as approved by the Commissioner.

- b) The general background and experience of the staff engaged in audit including the experience in auditing captives and other insurance companies.
- c) That the accountant understands that the audited annual report and his opinions thereon will be submitted to the Insurance Board of the Federates States of Micronesia.
- d) That the accountant consents to the requirements of Section 10 of this regulation and that the accountant consents and agrees to make available for review by the Commissioner, his designee or his appointed agent, the work papers as defined in Section 10.
- e) That the accountant is properly licensed and/or authorized by and in good standing with Institutes of Chartered Accountants, American Institute of Certified Public Accountants or the Japanese Institute of Certified Public Accountants, or other qualified accountant as recognized by the Commissioner and Insurance Board.

D. Financial Statements, which shall include:

- 1. Balance sheet;
- 2. Statement of gains or losses from operations;
- 3. Statement of changes in financial position;
- 4. Statement of changes in capital paid up, gross paid in and contributed surplus and unassigned funds (surplus)
- 5. Notes to financial statements as required by generally accepted accounting principles, international accounting standards or other basis of accounting as approved by the Commissioner, including:
 - a) A summary of ownership and relationship of the company and all affiliated corporations or companies insured by the captive.
 - b) A narrative explanation of all material transactions and balances with the company.

E. Certification of Loss Reserves and Loss Expense Reserves

- 1. The annual audit shall include an opinion as to the adequacy of the Captive's loss reserves and loss expense reserves, such opinion shall be supported by appropriate data and analysis.
- 2. The individual who certifies as to the adequacy of reserves shall be approved by the Commissioner and shall be a member in good standing of the Institute of Actuaries, Institute of Actuaries of Japan, American Academy of Actuaries, or an individual who has satisfactorily demonstrated his competence in loss reserve evaluation to the Commissioner.

3. Certification shall be in such form as the Commissioner deems appropriate.

XIII. Documentation Required to be Held in FSM

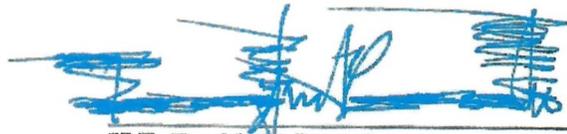
- A. All Captives licensed by the FSM shall maintain and have available for inspection and examination by the independent certified public accountant, the Commissioner, or the Commissioner's agent, any and all documents pertaining to the formation, operation, management, finances, insurance, and reinsurance of each Captive.
- B. Original documents may be kept in the offices of the Captive manager, the Captive's parent, or the Captive itself. Accurate and complete copies shall be held in a FSM office designated by the Captive and approved by the Commissioner. This requirement may be satisfied if the designated FSM office has regular access to a computer with internet access and the documents are stored on a internet-based file storage service accessible by the computer located in the designated office. The documents shall include but are not limited to the following:
 1. Regulatory records:
 - a) Certificate of authority;
 - b) Certificate of public good;
 - c) Articles of incorporation and by-laws;
 - d) Corporate resolutions and minutes;
 - e) Full application for admission and related documents, and all changes and amendments to application;
 - f) All filings and correspondence with other jurisdictions;
 - g) Annual reports filed with the FSM Insurance Board since the Captive insurance company's commencement of business; and
 - h) Correspondence with the Commissioner, the FSM Insurance Board and its advisors.
 2. Loss and expense records:
 - a) Reports certifying loss reserves, allocated loss adjustment expense reserves and rates by an actuary in accordance with 37 F.S.M.C. Section 1010(c);
 - b) Incurred loss reports (loss runs) including:
 - (1) Claim numbers;
 - (2) Occurrence dates
 - (3) Report dates;
 - (4) Lines of coverage;
 - (5) Payments to date;
 - (6) Reserve amounts;
 - (7) Date closed;
 - (8) Policy periods; and
 - (9) Loss valuation dates;

- c) Schedule of subrogation, salvage reinsurance, or recoverables;
 - d) Claim file summaries and correspondence; and
 - e) Summary narrative review of each large loss (exceeding ten percent of retention).
3. Accounting files:
- a) Audited annual financial statements since start-up;
 - b) Auditors' opinion letters and reports ;
 - c) Charts of general ledger accounts;
 - d) Ledgers (general, payable, receivable)
 - e) Journals (general, cash receipts, disbursements)
 - f) Documentation supporting accounting records;
 - (1) Bank statements and reconcilements;
 - (2) Checks and deposit slips;
 - (3) Signature authorization cards and board resolutions of approval;
 - (4) Letters of credit and other approved securities of guarantees, with board approvals;
 - (5) Investment statements, documentation, including brokerage receipts, with board approvals;
 - (6) Premium invoices, deferrals, and payment plans;
 - (7) Deferred start-up/acquisition cost statements, with board approval; and
 - (8) Schedule of premium taxes and fees paid and payable.
4. Fronting arrangements:
- a) Signed, approved fronting agreements, with board approval;
 - b) Reports and correspondence with front or underwriters; and
 - c) Audit reports and board acceptances.
5. Reinsurance reports:
- a) Reinsurance agreements and amendments, with board approvals;
 - b) Binders, covered notes, slips;
 - c) Correspondence with brokers and underwriters;
 - d) Evidence of reinsurance premium payments with board approvals;
 - e) Reinsurance audit reports or letters with board approvals; and
 - f) Letters of credit with notice to the Commissioner if "call" is made.
6. Insurance policy records:
- a) Policy registers - numeric control;

- b) Application summaries;
 - c) Declaration pages, forms, and endorsements;
 - d) Binders, cover notes, certificates of insurance;
 - e) Schedules of exceptions to normal underwriting/implementation process;
 - f) Risk control reports and policyholder response/implementation plans; and
 - g) Underwriting and rating plans, with board approvals.
7. Professional services providers:
- a) Contracts or agreements with providers of services, with board approvals, including but not limited to:
 - (1) Actuaries;
 - (2) Banker/trust departments;
 - (3) Insurance and reinsurance brokers;
 - (4) Claim managers;
 - (5) Investment managers/advisors/custodians;
 - (6) Lawyers (non-privileged reports and correspondence);
 - (7) Program/underwriting managers;
 - (8) Risk control advisors; and
 - (9) Risk management advisors.
8. Other information which the Commissioner deems pertinent.

Approved:

Date: 7/12/22



H.E. David W. Panuelo
President
Federated States of Micronesia

Date: 8/28/22



Reed Oliver
Chairman
FSM Insurance Board

Date: 8/28/22



Nakama Sana
Insurance Commissioner

Approved as to legal sufficiency:

Date: 11/04/22



Joseph R. Gallen, Sr.
Secretary
FSM Department of Justice