Government of the District of Columbia
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: **The Honorable Vincent C. Gray**
Chairman, Council of the District of Columbia

FROM: **Natwar M. Gandhi**
Chief Financial Officer

DATE: **October 25, 2010**

SUBJECT: **Fiscal Impact Statement – "Annual Financial Reporting Modernization Amendment Act of 2010"**

REFERENCE: **Bill Number 18-773 – As Introduced**

Conclusion

Funds are sufficient in the FY 2011 through FY 2014 budget and financial plan to implement the proposed legislation. The proposed legislation adopts the amendments made by National Association of Insurance Commissioners to insurance companies' reporting requirements, which are necessary to maintain the District's accreditation, and does not have an impact on the District's budget and financial plan.

Background

The proposed legislation would amend the annual financial reporting requirements[1] and enhance the surveillance of the financial condition of insurance companies by requiring the establishment of audit committees with certain enumerated responsibilities, by prohibiting insurers from indemnifying their independent auditors and auditors from providing certain non-audit services, by directing auditors and accountants to communicate to the Department of Insurance, Securities, and Banking (DISB) certain internal control related matters in the annual audit, by proscribing certain conduct of officers and directors in connection with the preparation of certain required financial reports and documents, and by requiring management to file reports[2] with DISB of internal control over financial reporting. The proposed changes would provide similar measures to the Sarbanes

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[1] By amending the Annual Audited Financial Reports Act of 1993; D.C. Law 10-48; D.C. Official Code § 31-301 *et seq.*, effective October 21, 1993

[2] Only for insurers writing in excess of $500 million of premium annually.

Oxley Act[3] to protect investors by improving the accuracy and reliability of corporate disclosures as recommended by National Association of Insurance Commissioners (NAIC)[4] and are necessary to maintain the District's accreditation for the NAIC to facilitate a uniform adoption of the requirements, so that insurers are operating under a single standard throughout the United States.[5] Many of the requirements of the proposed legislation would be effective for the reporting period ending December 31, 2010.

Financial Plan Impact

Funds are sufficient in the FY 2011 through FY 2014 budget and financial plan to implement the proposed legislation. The proposed legislation adopts the amendments made by NAIC to reporting requirements of insurance companies, which are necessary to maintain the District's accreditation for the NAIC to facilitate uniform standards throughout the country, and does not have an impact on the District's budget and financial plan.

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[3] Pub.L. 107-204, 116 Stat. 745, enacted July 30, 2002), also known as the 'Public Company Accounting Reform and Investor Protection Act.'

[4] After the enactment of Sarbanes-Oxley Act, a NAIC working group reviewed the disclosure provisions of that legislation to see how the underlying principals could be applied to mutual and privately held insurers, which fell outside the requirements of Sarbanes-Oxley Act. The vehicle for applying Sarbanes-Oxley-like rules for insurers is the Annual Financial Reporting Model Regulation, commonly referred to as the "Model Audit Rule," which is amended recently, and the proposed legislation aims to incorporate these amendments into D.C. Official Code.

[5] In addition to the District of Columbia, there are two other states that have yet to adopt the revisions to the Model Audit Rule, Texas and Florida, and both are on target for adoption by the end of the year.