

191—98.13(505) Requirements for audit committees. This rule shall not apply to foreign or alien insurers licensed in this state or to an insurer that is a SOX compliant entity or a direct or indirect wholly owned subsidiary of a SOX compliant entity.

98.13(1) The audit committee shall be directly responsible for the appointment, compensation and oversight of the work of any accountant (including resolution of disagreements between management and the accountant regarding financial reporting) for the purpose of preparing or issuing the audited financial report or related work pursuant to this chapter. Each accountant shall report directly to the audit committee.

98.13(2) The audit committee of an insurer or group of insurers shall be responsible for overseeing the insurer’s internal audit function and granting the person or persons performing the function suitable authority and resources to fulfill their responsibilities if required by rule 191—98.14(505).

98.13(3) Each member of the audit committee shall be a member of the board of directors of the insurer or a member of the board of directors of an entity elected pursuant to subrule 98.13(6).

98.13(4) In order to be considered independent for purposes of this rule, a member of the audit committee may not, other than in the member's capacity as a member of the audit committee, the board of directors, or any other board committee, accept any consulting, advisory or other compensatory fee from the entity or be an affiliated person of the entity or any subsidiary thereof. However, if law requires board participation by otherwise nonindependent members, that law shall prevail and such members may participate in the audit committee and be designated as independent for audit committee purposes unless they are officers or employees of the insurer or one of its affiliates.

98.13(5) If a member of the audit committee ceases to be independent for reasons outside the member’s reasonable control, that person, with notice by the responsible entity to the state, may remain an audit committee member of the responsible entity until the earlier of the next annual meeting of the responsible entity or one year from the occurrence of the event that caused the member to no longer be independent.

98.13(6) To exercise the election of the controlling person to designate the audit committee for purposes of this chapter, the ultimate controlling person shall provide written notice to the commissioners of the affected insurers. Notification shall be made timely prior to the issuance of the statutory audit report and shall include a description of the basis for the election. The election may be changed through notice to the commissioner by the insurer, which shall include a description of the basis for the change. The election shall remain in effect for perpetuity until rescinded.

98.13(7) The audit committee shall require the accountant that performs for an insurer any audit required by this chapter to timely report to the audit committee in accordance with the requirements of SAS 61, Communication with Audit Committees, or its replacement, including:

- a. All significant accounting policies and material permitted practices;
- b. All material alternative treatments of financial information within statutory accounting principles that have been discussed with management officials of the insurer, the ramifications of the use of the alternative disclosures and treatments, and the treatment preferred by the accountant; and
- c. Other material written communications between the accountant and the management of the insurer, such as any management letter or schedule of unadjusted differences.

98.13(8) If an insurer is a member of an insurance holding company system, the reports required by subrule 98.13(7) may be provided to the audit committee on an aggregate basis for insurers in the holding company system, provided that any substantial differences among insurers in the system are identified to the audit committee.

98.13(9) The proportion of independent audit committee members shall meet or exceed the following criteria:

Prior Calendar Year Direct Written and Assumed Premiums		
\$0 - \$300 million	Over \$300 million - \$500 million	Over \$500 million
No minimum requirements.	Majority (50 percent or more) of members shall be independent.	Supermajority of members (75 percent or more) shall be independent.

- a. The commissioner has the authority to require the entity’s board to enact improvements to the independence of the audit committee membership if the insurer is in any RBC action level event, meets one

or more of the standards of an insurer deemed to be in hazardous financial condition, or otherwise exhibits qualities of a troubled insurer.

b. Prior calendar year direct written and assumed premiums shall be the combined total of direct premiums and assumed premiums from nonaffiliates for the reporting entities.

98.13(10) An insurer with direct written and assumed premiums, excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, of less than \$500 million may make application to the commissioner for a waiver from the requirements of this rule based upon hardship. The insurer shall file, with its annual statement filing, the approval for relief from this rule with the states that it is licensed in or doing business in and with the NAIC. If the nondomestic state accepts electronic filing with the NAIC, the insurer shall file the approval in an electronic format acceptable to the NAIC.

[ARC 3145C, IAB 6/21/17, effective 7/26/17]