

January 29, 1999

TO:

All Domestic Companies Authorized to Write Life and/or Accident and Health and Property and Casualty Insurance in Illinois (including Farm Mutuals). All Domestic Health Maintenance Organizations and Limited Health Service Organizations.

FROM:

Nathaniel S. Shapo, Director

RE:

(CB # 99-1) Year 2000 (Y2K) Disclosures in Management Discussion and Analysis

CONTACT PERSON:

Jeffrey D. Pirmann, Assistant Deputy Director, (217) 557-1397

Pursuant to the authority granted by 215 ILCS 5/136 of the Illinois Insurance Code, domestic insurers filing annual statements for calendar year 1998 with this Department that include an MD&A must include within the MD&A letter an analysis of their Year 2000 issues. Members of an affiliated insurance group that have a single Year 2000 plan, may use the same disclosure statements in the MD&A. Domestic insurers may be guided regarding the types and form of disclosures by the Securities and Exchange Commission's Release Number 33-7558. Section III (A) of the release provides the pertinent guidance.

Release Number 33-7558, Section III(A) reads as follows:

Specific Guidance for Year 2000 Disclosure under MD&A

The following specific guidance sets forth the type of Year 2000 disclosure that companies should provide under MD&A and other rules and regulations.

1. Basic MD&A Analysis

MD&A is intended to give investors the opportunity to look at a company through the eyes of management by providing both a short and long-term analysis of the company's business -- with particular emphasis on the company's prospects for the future. MD&A requires a discussion of liquidity, capital resources, results of operations, and other information necessary to an understanding of a company's financial condition, changes in financial condition, and results of operations. The language of the MD&A requirement is intentionally general. This reflects our view that a flexible approach best elicits meaningful disclosure and avoids boilerplate discussions.

One of the challenges that a company faces when drafting its MD&A is discussing forward-looking information. One of the few regulations that require forward-looking disclosure, MD&A

contains a variety of formulations calling for this information, including a requirement to disclose known material events, trends or uncertainties.

In the 1989 Release, we gave guidance to companies on various aspects of MD&A disclosure. Under the 1989 Release, companies should apply the following analysis to determine if they should disclose forward-looking information.

Where a trend, demand, commitment, event, or uncertainty is known, management must make two assessments:

- (1) Is the known trend, demand, commitment, event or uncertainty likely to come to fruition? If management determines that it is not reasonably likely to occur, no disclosure is required.
- (2) If management cannot make that determination, it must evaluate objectively the consequences of the known trend, demand, commitment, event or uncertainty on the assumption that it will come to fruition. Disclosure is then required unless management determines that a material effect on the company's financial condition or results of operations is not reasonably likely to occur.

The determination made by management must be objectively reasonable, viewed as of the time the determination is made.

This test essentially requires companies to disclose forward-looking information based on currently known events, trends or uncertainties that are reasonably likely to have material effects on the company's financial condition or results of operations. Because of the prevalence of computers and embedded technology in virtually all businesses and the potential consequences of not adequately addressing the Year 2000 problem, we believe that almost every company will need to address this issue.

This release may be viewed in its entirety at the following internet website:

<http://www.sec.gov/>

A full and fair disclosure will include comments about:

- The company's state of readiness;
- The costs to address the company's Year 2000 issues;
- The risks of the company's Year 2000 issues; and
- The company's contingency plans.

Your consideration of this interpretation and submission of a meaningful disclosure will be expected with the MD&A.