

**Statutory Accounting Principles (E) Working Group
Hearing Agenda
January 27, 2022
3:00- 3:30 p.m. CST/ 4:00-4:30 EST**

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver	Michigan
Carrie Mears/Kevin Clark, Co-Vice Chairs	Iowa	Doug Bartlett	New Hampshire
Sheila Travis	Alabama	Bob Kasinow	New York
Kim Hudson	California	Kimberly Rankin/Melissa Greiner	Pennsylvania
Kathy Belfi/William Arfanis	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/David Smith	Virginia
Eric Moser	Illinois	Amy Malm	Wisconsin
Stewart Guerin/Melissa Gibson	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jim Pinegar, Jake Stultz, Jason Farr

Note: This meeting will be recorded for subsequent use.

REVIEW of COMMENTS on EXPOSED ITEMS

The following items received comments during the exposure period that are open for discussion.

1. Ref #2021-18: VM-21 Scenario Consistency Update
2. Ref# 2021-31: Life Reinsurance Disclosure Clarifications

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-18 SSAP No. 108 (Robin)	VM-21 Scenario Consistency Update	1- Agenda Item	In Agreement (minor edits received)	IP – 1

Summary:

On December 11, 2021, the Statutory Accounting Principles (E) Working Group received comments on the prior exposure, and exposed additional SAP clarifications, to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*. The revisions, which incorporate edits proposed from Life Actuarial (A) Task Force representatives and interested parties, ensure consistency with revisions to *VM-21: Requirements for Principle-Based Reserves for Variable Annuities* by removing reference to the standard scenario while adding reference to the conditional tail expectation 70 guidance. This agenda item had a shortened exposure period, ending January 14, 2022, so that the Working Group could consider adoption for year-end 2021 reporting.

Interested Parties' Comments:

Interested parties do not object to these changes.

Informal comments from a member of Life Actuarial (A) Task Force (LATF):

We reviewed, and the way that the Macauley duration language got moved into the footnote made the first line of the footnote no longer make any sense. Here are suggested editorial revisions for clarity (changes highlighted in

yellow, plus a final note that we moved the piece about the discount rate for the Macaulay duration to the end, since it is a separate discussion from anything about the Standard Projection):

See shaded revisions to the exposure draft:

14. Deferred assets and deferred liabilities recognized under paragraph 13.b. shall be amortized using a straight-line method into realized gains or realized losses over a finite amortization period. The amortization timeframe shall equal the Macaulay duration of the guarantee benefit cash flows based on the VM-21 Standard ~~Scenario Projection~~ (new FN), but shall not exceed a period of 10 years.

~~New Footnote: The VM-21 Standard Projection benefit cash flow calculation shall be based on the prescribed assumptions run for the scenario that produces the scenario reserve closest to conditional tail expectation (CTE) 70 (adjusted), and a discount rate equal to the valuation interest rate specified by the Standard Valuation Law for annuities valued on an issue year basis, using Plan Type A and a Guarantee Duration greater than 10 years but not more than 20 years. The VM-21 Standard Projection with prescribed assumptions run is determined using the method (company specific market path (CSMP) or conditional tail expectations (CTE) with prescribed assumptions (CTEPA)) applied by the reporting entity to calculate the prescribed projections amount. For the CSMP method, the economic scenario is Path A, with the guarantee benefit cash flows from the run to calculate Prescribed Amount A. For the CTEPA method, the economic scenario is the scenario that produces the scenario reserve closest to the CTE70 (Adjusted) from the stochastic reserve calculation, with the guarantee benefit cash flows from the VM-21 Standard Projection with prescribed assumptions run for this economic scenario. The discount rate for the Macaulay duration calculation shall be equal to the valuation interest rate specified by the Standard Valuation Law for annuities valued on an issue year basis, using Plan Type A and a Guarantee Duration greater than 10 years but not more than 20 years.~~

Recommended Action:

NAIC staff shared the revised wording from the LATF member prior to the interested parties submitting their comment letter and the interested parties informally indicated that they did not object to the LATF member proposed edits. NAIC staff recommends that the Working Group adopt the exposed revisions, classified as a SAP clarification, with the edits proposed by a member of LATF (as illustrated with the shaded revisions above). The revisions are proposed to have a December 31, 2021, effective date so that the VM and AP&P Manual will be in sync.

Final language proposed for adoption in SSAP No. 108, which include edits from the LATF member This tracking reflects the revisions to SSAP No. 108 that would be shown in the publication:

14. Deferred assets and deferred liabilities recognized under paragraph 13.b. shall be amortized using a straight-line method into realized gains or realized losses over a finite amortization period. The amortization timeframe shall equal the Macaulay duration of the guarantee benefit cash flows based on the VM-21 Standard ~~Scenario Projection~~ (new FN), but shall not exceed a period of 10 years.

~~New Footnote: The VM-21 Standard Projection benefit cash flows shall be based on the prescribed assumptions run for the scenario that produces the scenario reserve closest to conditional tail expectation (CTE) 70 (adjusted). The VM-21 Standard Projection with prescribed assumptions run is determined using the method (company specific market path (CSMP) or conditional tail expectations with prescribed assumptions (CTEPA)) applied by the reporting entity to calculate the prescribed projections amount. For the CSMP method, the economic scenario is Path A, with the guarantee benefit cash flows from the run to calculate Prescribed Amount A. For the CTEPA method, the economic scenario is the scenario that produces the scenario reserve closest to the CTE70 (adjusted) from the stochastic reserve calculation, with the guarantee benefit cash flows from the VM-21 Standard Projection with prescribed assumptions run for this economic scenario. The discount rate for the Macaulay duration calculation shall be equal to the valuation interest rate specified by the Standard Valuation Law for annuities valued on an issue year basis, using Plan Type A and a Guarantee Duration greater than 10 years but not more than 20 years.~~

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-31 SSAP No. 61 (Robin)	Life Reinsurance Disclosure Clarifications	2	In Agreement (with proposed edits)	IP-1 AICPA's TF -3

Summary:

This agenda item was exposed on December 11, 2021, to address questions received from members of the American Institute of Certified Public Accountants' (AICPA) NAIC Task Force regarding the life reinsurance disclosures and the related audited notes that were first effective in December 2020. The disclosures were adopted in *SSAP No. 61R—Life and Health Reinsurance* in agenda item 2017-28: Reinsurance Risk Transfer for Short Duration Contracts. Preparers and auditors have highlighted unclear elements in the disclosures that could use additional clarification. In the statutory annual statement filing the disclosures are in Note 23H and are not data captured. The proposed revisions to SSAP No. 61R narrow the scope of the disclosures and clarify what is required in the disclosures. This agenda item had a shortened exposure period, ending January 14, 2022, so that the Working Group could consider adoption for year-end 2021 reporting.

Interested Parties' Comments:

Interested parties appreciate the exposure to clarify and narrow the scope of information requested in the SSAP No. 61R disclosures, specifically to paragraphs 78-83. Our understanding is that the original intent of these additional disclosures was to obtain information on ceded reinsurance. We note that the reference to "ceding" in paragraphs 79 and 80 should be "ceded" as is written in paragraph 81. For paragraph 81, we would suggest deleting "assumed or" so that the scope of disclosure remains consistent from 2020 to 2021 (with the extraneous disclosures clarified).

Members of the AICPA's NAIC Task Force

Thanks again for considering the comments we submitted in 2021 related to these new disclosures and in developing the Form A. The AICPA NAIC Task Force has two additional comments that we would also appreciate that you consider:

1. Several of our members pointed out it might be confusing and/or lead to inconsistent practice to allow the disclosures to be included in either the footnotes or a supplemental schedule, because footnotes and supplemental information provide different levels of auditor assurance. Therefore, It would be unusual to have the option to include the disclosures in either place. As a result, we are recommending the following revisions below as "friendly amendments" to maintain the disclosures in a supplemental schedule, consistent with 2020. (This is also consistent with the intent of our comments last year.)

78. Disclosures for paragraphs 79-84 are required to be included with the annual audit report financial statements beginning with the period ended December 31, 2020, regarding reinsurance contracts. The disclosures required within paragraphs 79-84 shall ~~can~~ be included in accompanying supplemental schedules ~~or the notes~~ of the annual audit report beginning in year-end 2020. If the disclosures are not applicable, an affirmative statement that no such contracts were identified is acceptable in the notes to the financial statements. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1996. This limitation applies to the annual audit report only and does not apply to the statutory annual statement interrogatories and the property and casualty reinsurance summary supplemental filing.

2. On a related issue and assuming the Working Group agrees to the changes above in paragraph 78 of SSAP No. 61R, we would like to comment on SAPWG's conclusion that the life reinsurance supplemental schedule should be comparative. The other required schedules to the financial statements do not require comparable information. (A list of the schedules is below.) For these schedules, the annual statement instructions set out the form and content

of the schedules which reflects a one year presentation. It would be useful to understand why this schedule would be different and if that was the intent of SAPWG. Do you know whether the decision to make the disclosure comparable considered that the other required schedules are not required to be comparable? In either case, we would like to request that the guidance in SSAP 61R (or in the 2022 annual statement instructions) state whether the schedule should be comparative.

With regard to the conclusion in the minutes that indicates that the change would be done prospectively, this seems like an accommodation to prevent companies from having to fix prior years (which we don't want to discourage), but there could be some complexity in reporting on a comparative schedule that is not comparable because the guidance changed (e.g., the basis for preparing the schedule is not comparative) and could lead to diversity in approach in how individual companies and auditors deal with reporting in the current year.

Below is a list of current supplemental schedules which are not comparative (i.e. only the current year is presented)

- Supplemental schedule of assets and liabilities
- Supplemental schedule of Investment Risk Interrogatories
- Summary Investment Schedule
- Supplemental P/C Reinsurance Contracts Disclosures
-

Recommended Action:

NAIC staff recommends that the Working Group adopt the exposed SAP clarifications with additional revisions that reflects the following: 1) Revisions from the Interested Parties and from the members of the AICPA's NAIC Task Force as detailed in the comment letters; and 2) Additional NAIC staff proposed edits to paragraph 78 that were developed in discussion with representatives from the AICPA. The new proposed edits to the exposed language are shaded. The edits are recommended to added with a December 31, 2021, effective date to assist preparers and auditors.

The new revisions are summarized by paragraph below:

- Paragraph 78 –
 - Audit Report Location - The exposed revisions were to clarify that the information could be in the audited notes or the supplementary schedules. The AICPA's NAIC Task Force members requested edits to clarify that the information reside in the supplementary schedules unless no such contracts subject to the disclosures were identified, in which case, the information that no such contracts were identified can be in either the audited note or the supplementary schedules.
 - Comparative or Not- Supplemental Schedule - The AICPA's NAIC Task Force members have noted that most supplemental schedules, including the one for the P&C reinsurance disclosures, are not comparative and are only focused on the current period. NAIC staff verified that the related P&C disclosures in the general interrogatories PC (GI part 2, interrogatories 7-9) are focused on contracts in effect for the period covered by the statement. Given that the PC supplementary reinsurance information is not comparative, NAIC staff and the AICPA representatives drafted proposed revisions that the supplementary information is for reinsurance contracts in effect for the current period covered by the statement.
- Paragraphs 79 and 80 – Interested parties suggested editorial change of verb tense from ceding to ceded.
- Paragraph 81 – Interested parties suggested deleting “assumed or” so that the scope of disclosure is focused on ceded reinsurance contracts. The December exposure intentionally added assumed or ceded because the paragraph included the word “any”. However, upon review, the disclosure in SSAP No. 61R, paragraph 81 is based on the text in *SSAP No. 62R—Property and Casualty Reinsurance*, paragraph 115, which is clearly **only for ceded** reinsurance contracts. The sentence in SSAP No. 62R begins: “Disclose if the reporting entity **ceded**

any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement...” Therefore, NAIC staff supports the revision as it provides consistency with the P&C disclosure.

The proposed revisions to *SSAP No. 61R—Life and Health Reinsurance* compared to the December 2021 exposure are illustrated below as shaded text:

78. Disclosures for paragraphs 79-84 apply to reinsurance contracts in effect for the current period covered by the statement and are required to be included with the annual audit report financial statements beginning with the period ended December 31, 2020, regarding reinsurance contracts. The disclosures required within paragraphs 79-84 shall can be included in accompanying supplemental schedules or the notes of the annual audit report beginning in year-end 2020. If the disclosures are not applicable, an affirmative statement that no such contracts were identified is acceptable in the notes to the financial statements or the supplemental schedules. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1996. This limitation applies to the annual audit report only and does not apply to the statutory annual statement interrogatories and the property and casualty reinsurance summary supplemental filing.

79. Disclose any ceded ceding reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer’s assumption of significant risks identified as in A-791. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks.

80. Disclose any ceded ceding reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer’s assumption of risk. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. Note that a stop loss or excess of loss reinsurance agreement with deductibles or loss caps which apply to the entire contract and are not adjustable based on other features, do not require disclosure under this paragraph. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk-limiting features.

81. Disclose if any ~~assumed or~~ ceded reinsurance contracts contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

- a. Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).
- b. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

82. Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk-transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.

- a. Assumption Reinsurance – as discussed in paragraph 60, which are new for the reporting period.
- ~~b. ——— Non-proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured event(s) triggering contract coverage has been recognized.~~

83. Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- a. Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under U.S. generally accepted accounting principles (GAAP); or
- b. Accounted for that contract as reinsurance under U.S. GAAP and as a deposit under SAP.

If the reporting entity does not prepare U.S. GAAP financial statements or its financial statements are not part of upstream U.S. GAAP financial statements, this disclosure can be answered not applicable.

84. If affirmative disclosure is required for paragraph 83, explain why the contract(s) is treated differently for GAAP and SAP.

Revisions to SSAP No. 61R as they would be reflected in the publication. (This tracking removes exposed revisions that were subsequently revised.)

78. Disclosures for paragraphs 79-84 apply to reinsurance contracts in effect for the current period covered by the statement and are required to be included with the annual audit report financial statements beginning with the period ended December 31, 2020, regarding reinsurance contracts. The disclosures required within paragraphs 79-84 shall be included in accompanying supplemental schedules of the annual audit report beginning in year-end 2020. If the disclosures are not applicable, an affirmative statement that no such contracts were identified is acceptable in the notes to the financial statements or the supplemental schedules. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1996. This limitation applies to the annual audit report only and does not apply to the statutory annual statement interrogatories and the property and casualty reinsurance summary supplemental filing.

79. Disclose any ceded reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer's assumption of significant risks identified as in A-791. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks.

80. Disclose any ceded reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. Note that a stop loss or excess of loss reinsurance agreement with deductibles or loss caps which apply to the entire contract and are not adjustable based on other features, do not require disclosure under this paragraph. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk-limiting features.

81. Disclose if any ceded reinsurance contracts contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

- a. Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).
- b. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

82. Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk-transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.

- a. Assumption Reinsurance – as discussed in paragraph 60, which are new for the reporting period.

~~b. Non-proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured event(s) triggering contract coverage has been recognized.~~

83. Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- a. Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under U.S. generally accepted accounting principles (GAAP); or
- b. Accounted for that contract as reinsurance under U.S. GAAP and as a deposit under SAP.

If the reporting entity does not prepare U.S. GAAP financial statements or its financial statements are not part of upstream U.S. GAAP financial statements, this disclosure can be answered not applicable.

84. If affirmative disclosure is required for paragraph 83, explain why the contract(s) is treated differently for GAAP and SAP.

The comment letters are included in Attachment 3 (4 pages).

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2022/1-27-22/0 - 1-27-2022 - sapwg hearing agenda.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2022/1-27-22/0%20-%201-27-2022%20-%20sapwg%20hearing%20agenda.docx)

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: VM-21 Scenario Consistency Update

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

This agenda item provides a revision to *Statement of Statutory Accounting Principles (SSAP) No. 108—Derivatives Hedging Variable Annuity Guarantees* (SSAP No. 108) to ensure consistency with the Valuation Manual. This agenda item was developed in response to comments from an actuarial firm identifying an existing reference in SSAP No. 108 to the standard scenario in *VM-21: Requirements for Principle-Based Reserves for Variable Annuities* (VM-21). The Life Actuarial (A) Task Force NAIC staff support confirmed that the reference to the standard scenario has been deleted from VM-21.

VM-21 previously applied the standard scenario to all contracts in scope to generate the standard scenario amount. Revisions to VM-21 following the adoption of the Variable Annuity Framework resulted in the elimination of the standard scenario amount. Instead, VM-21 uses the prescribed projections amount, based on either the Company Specific Market Path (CSMP) or Conditional Tail Expectations (CTE) with Prescribed Assumptions (CTEPA). The CSMP and the CTEPA use random sets of scenarios to generate a CTE70 (adjusted) amount. This agenda item proposes using the VM-21 permitted approach that produces the CSMP or CTEPA scenario reserve closest to the CTE70 (adjusted) as the replacement for the standard scenario when determining the Macaulay duration in paragraph 14 of SSAP No. 108.

Existing Authoritative Literature:

SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees provides the following (bolding added for emphasis)

13. Fair value fluctuations in the measurement of outstanding (non-expired) derivatives within a highly effective hedging strategy shall be reflected as follows:
 - a. Fair value fluctuations in the hedging instruments attributable to the hedged risk that offset the current period change in the designated portion of the VM-21 reserve liability⁷ shall be

⁷ Hedge effectiveness is determined by comparing fair value fluctuations between the hedging instruments and the hedged item. However, in determining recognition in the financial statements, the fair value fluctuation of the hedging instruments is compared to the change in the reported value of the designated portion of the VM-21 liability. The designated portion of the VM-21 liability is not reported at fair value in the statutory financial statements, as such, the offset reported as realized gains and losses is the portion of the fair value change in hedging instruments offset by the change in the reported value of the designated portion of the VM-21 reserve. In accordance with the documented hedging strategy, reporting entities shall compare the fair value fluctuations to the change in the designated portion of the reserve liability, after considering recognized derivative returns (including recognized derivative income), when determining the recognition of fair value fluctuations.

recognized as a realized⁸ gain or loss.

- b. Fair value fluctuations in the hedging instruments attributable to the hedged risk⁹ that do not offset the current period change in the designated portion of the VM-21 reserve liability shall be recognized as deferred assets (admitted) and deferred liabilities. The ability to recognize a deferred asset and deferred liability is limited to only the portion of the fair value fluctuation in the hedging instruments that is attributed to the hedged risk and does not immediately offset changes in the designated portion of the VM-21 reserve liability.

(Drafting Note subparagraphs 13.c. through 13.e. omitted to conserve space.)

14. Deferred assets and deferred liabilities recognized under paragraph 13.b. shall be amortized using a straight-line method into realized gains or realized losses over a finite amortization period. The amortization timeframe shall equal the Macaulay duration of the guarantee benefit cash flows **based on the VM-21 Standard Scenario**, but shall not exceed a period of 10 years.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): Not applicable.

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 108, paragraph 14 as illustrated below. The revision will ensure consistency with VM-21 as it no longer references the standard scenario. With exposure, it is recommended that the Life Actuarial (A) Task Force receive notice of the exposure as part of the coordination process.

14. Deferred assets and deferred liabilities recognized under paragraph 13.b. shall be amortized using a straight-line method into realized gains or realized losses over a finite amortization period. The amortization timeframe shall equal the Macaulay duration of the guarantee benefit cash flows based on the VM-21 ~~Standard Scenario~~adjusted run scenario that produces the scenario reserve closest to conditional tail expectation (CTE) 70 (adjusted), but shall not exceed a period of 10 years. The CTE 70 (adjusted) and the scenario reserve closest to the CTE 70 (adjusted) are determined using the method (company specific market path (CSMP) or conditional tail expectations (CTE) with prescribed assumptions (CTEPA)) applied by the reporting entity^{FN} to calculate the prescribed projections amount.

New Footnote:

VM-21 allows a reporting entity to choose whether to use the CSMP method or the CTEPA method. Once the choice is made the company cannot change the method without the approval of the commissioner. For the purpose of determining the SSAP No. 108 amortization timeframe, the company shall apply its current method to determine the adjusted run scenario.

⁸ Recognizing the fair value change for open derivative positions that offset the VM-21 change as a realized gain/loss (instead of an unrealized gain or loss) directly offsets the VM-21 reserve change in the income statement.

⁹ The change in fair value of the hedging instruments and hedged item is limited to changes driven by market factors. For example, periodic recognition of a cost owed to acquire the derivative from a counterparty (financing cost) shall not be captured as a change in the derivative instrument's fair value. The fair value of the instrument shall be determined based on the underlying derivative without inclusion of acquisition costs (or other such contractual elements that may exist with the counterparty) that do not change based on the underlying derivative interests or market factors.

Staff Review Completed by: Robin Marcotte, NAIC Staff - October 2021

Status:

On October 25, 2021, in response to an e-vote to expose, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* to ensure consistency with revisions to VM-21, removing references to the standard scenario. The Working Group also provided notice of the exposure to the Life Actuarial (A) Task Force.

On December 11, 2021, Statutory Accounting Principles (E) Working Group exposed revisions, to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*, as illustrated below. The revisions, which incorporate edits proposed from Life Actuarial (A) Task Force representatives, ensure consistency with revisions to VM-21 by removing reference to the standard scenario while adding reference to the conditional tail expectation 70 guidance. This agenda item has a shortened exposure period, ending Jan. 14, 2022, so that the Working Group may consider adoption for year-end 2021 reporting.

Exposed Revisions to SSAP No. 108

14. Deferred assets and deferred liabilities recognized under paragraph 13.b. shall be amortized using a straight-line method into realized gains or realized losses over a finite amortization period. The amortization timeframe shall equal the Macaulay duration of the guarantee benefit cash flows based on the VM-21 Standard ~~Scenario~~Projection (new FN), but shall not exceed a period of 10 years.

New Footnote:

The VM-21 Standard Projection calculation shall be the prescribed assumption run for the scenario that produces the scenario reserve closest to conditional tail expectation (CTE) 70 (adjusted) and a discount rate equal to the valuation interest rate specified by the Standard Valuation Law for annuities valued on an issue year basis, using Plan Type A and a Guarantee Duration greater than 10 years but not more than 20 years. The VM-21 Standard Projection with prescribed assumption run is determined using the method (company specific market path (CSMP) or conditional tail expectations (CTE) with prescribed assumptions (CTEPA)) applied by the reporting entity to calculate the prescribed projections amount. For the CSMP method, the economic scenario is Path A, with the guarantee benefit cash flows from the run to calculate Prescribed Amount A. For the CTEPA method, the economic scenario is the scenario that produces the scenario reserve closest to the CTE70 (Adjusted) from the stochastic reserve calculation, with the guarantee benefit cash flows from the VM-21 Standard Projection with prescribed assumption run for this economic scenario.

Proposed SSAP No. 108 revisions for adoption consideration on January 27, 2022:

14. Deferred assets and deferred liabilities recognized under paragraph 13.b. shall be amortized using a straight-line method into realized gains or realized losses over a finite amortization period. The amortization timeframe shall equal the Macaulay duration of the guarantee benefit cash flows based on the VM-21 Standard ~~Scenario~~Projection (new FN), but shall not exceed a period of 10 years.

New Footnote: The VM-21 Standard Projection benefit cash flows shall be based on the prescribed assumptions run for the scenario that produces the scenario reserve closest to conditional tail expectation (CTE) 70 (adjusted). The VM-21 Standard Projection with prescribed assumptions run is determined using the method (company specific market path (CSMP) or conditional tail expectations with prescribed assumptions (CTEPA)) applied by the reporting entity to calculate the prescribed projections amount. For the CSMP method, the economic scenario is Path A, with the guarantee benefit cash flows from the run to calculate Prescribed Amount A. For the CTEPA method, the economic scenario is the scenario that produces the scenario reserve closest to the CTE70 (adjusted) from the stochastic reserve calculation, with the guarantee benefit cash flows from the VM-21 Standard Projection with prescribed assumptions run for this economic scenario. The discount rate for the Macaulay duration calculation shall be equal to the

valuation interest rate specified by the Standard Valuation Law for annuities valued on an issue year basis, using Plan Type A and a Guarantee Duration greater than 10 years but not more than 20 years.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2022/1-27-22/1 att - 21-18 - VM 21 to SSAP 108 Update.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2022/1-27-22/1att-21-18-VM21toSSAP108Update.docx)

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Life Reinsurance Disclosure Clarifications

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

This agenda item is to address questions received from members of the American Institute of Certified Public Accountants (AICPA) NAIC Task Force regarding the life reinsurance disclosures and the related audited notes that were first effective in December 2020. The disclosures were adopted in *SSAP No. 61R—Life and Health Reinsurance* in agenda item 2017-28: Reinsurance Risk Transfer for Short Duration Contracts. Preparers and auditors have highlighted unclear elements in the disclosures that could use additional clarification. Requested clarifications and responses are detailed in the recommendation section, but they include items regarding whether the disclosures apply to ceding and assuming contracts, the format expected for the audited notes and how broadly to interpret the scope of certain disclosures. In the statutory annual statement filing the disclosures are in Note 23H and are not data captured. The proposed revisions to SSAP No. 61R narrow the scope of the disclosures and clarify what is required in the disclosures.

Existing Authoritative Literature:

SSAP No. 61R—Life and Health Reinsurance includes the following disclosures:

78. Disclosures for paragraphs 79-84 are required to be included with the annual audit report financial statements beginning with the period ended December 31, 2020, regarding reinsurance contracts. The disclosures required within paragraphs 79-84 shall be included in accompanying supplemental schedules of the annual audit report beginning in year-end 2020. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1996. This limitation applies to the annual audit report only and does not apply to the statutory annual statement interrogatories and the property and casualty reinsurance summary supplemental filing.

79. Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer's assumption of significant risks identified as in A-791. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks.

80. Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk-limiting features.

81. Disclose if any reinsurance contracts contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

- a. Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).
 - b. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.
82. Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk-transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.
- a. Assumption Reinsurance – new for the reporting period.
 - b. Non-proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured events(s) triggering contract coverage has been recognized.
83. Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- a. Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
 - b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.
84. If affirmative disclosure is required for paragraph 83, explain why the contract(s) is treated differently for GAAP and SAP.

The SSAP No. 61R disclosures were developed based on existing SSAP No. 62R—*Property and Casualty Reinsurance* disclosures with modifications for life and health reinsurance guidance. SSAP No. 62R includes the following disclosures:

113. Disclosures for paragraphs 114-119 represent annual statement interrogatories, which are required to be included with the annual audit report beginning with audit reports on financial statements as of and for the period ended December 31, 2006. The disclosures required within paragraphs 114-119 shall be included in accompanying supplemental schedules of the annual audit report beginning in year-end 2006. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1994. This limitation applies to the annual audit report only and does not apply to the statutory annual statement interrogatories and the reinsurance summary supplemental filing.

114. Disclose if any risks are reinsured under a quota share reinsurance contract with any other entity that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g. a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? If yes, indicate the number of reinsurance contracts containing such provisions and if the amount of reinsurance credit taken reflects the reduction in quota share coverage caused by any applicable limiting provision(s).

115. Disclose if the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

- a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

- b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
- c. Aggregate stop loss reinsurance coverage;
- d. A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
- e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
- f. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

116. Disclose if the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders. This disclosure is limited to reinsurance contracts with written premium cessions or loss and loss expense reserve cessions described in this paragraph that meet the criteria of paragraph 116.a. or paragraph 116.b. This disclosure excludes cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member.

- a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
- b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in separate reinsurance contract.

117. If affirmative disclosure is required for paragraph 115 or 116, provide the following information:

- a. A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting paragraph 115 or 116;
- b. A brief discussion of management's principal objectives in entering into the reinsurance contract including the economic purpose to be achieved; and
- c. The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income.

118. Except for transactions meeting the requirements of paragraph 36, disclose if the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
- b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

119. If affirmative disclosure is required for paragraph 118, explain in a supplemental filing why the contract(s) is treated differently for GAAP and SAP.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

Agenda item 2017-28 adopted the SSAP No. 61R disclosures in paragraphs 78-84. The disclosures were developed at the request of the Financial Analysis (E) Working Group and were based on existing disclosures in *SSAP No. 62R—Property and Casualty Reinsurance* in paragraphs 114-119 that are designed to identify contracts with risk limiting features or other items that may need additional regulatory review. The disclosures had to be modified to meet the requirements of SSAP No. 61R and *Appendix A-791- Life and Health Reinsurance Agreements*

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose the revisions to SSAP No. 61R disclosures illustrated below. These items are recommended for a shortened comment period to allow for possible adoption in early 2022 with a year-end 2021 effective date. The proposed revisions provide clarifications and, in some cases, narrow the scope of disclosure. No additional disclosures are proposed. Having the disclosure revisions final for year-end 2021 will assist preparers and auditors.

1. Does the Statutory Accounting Principles (E) Working Group expect the disclosures to be filed as a supplemental schedule in the audited financial statements even when all answers are not applicable or none? **(This is the most common question that the auditing firms received.)**

Response: If there are no contracts with the applicable features, a narrative note would be sufficient. See suggested edit to paragraph 78 which provides that the information can be in a note or a supplemental schedule. NAIC staff notes that Note 23H is not data captured in the statutory annual statement filing.

2. Is the supplemental schedule specific to ceded reinsurance only?

Response: While some of the disclosures are primarily designed to identify ceding contracts which may require additional scrutiny to verify that too large of a reinsurance credit was taken by the ceding entity, the scope of the disclosures includes all reinsurance contracts unless specifically identified otherwise. See proposed clarifications to limit paragraphs 79 and 80 to ceding contracts. This clarification would be similar to corresponding paragraphs in SSAP No. 62. Also, a clarification also specifies that paragraph 81 is applicable to both assumed and ceding contracts.

3. With regard to paragraph 80, would a stop loss or excess of loss reinsurance agreement with a loss cap or with deductibles (which are common contractual provisions) be required to be disclosed?

Response: Paragraph 80 provides the following:

80. Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk-limiting features.

Paragraph 80 is a modification of the following SSAP No. 62R disclosure:

114. Disclose if any risks are reinsured under a quota share reinsurance contract with any other entity that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g. a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? If yes, indicate the number of reinsurance contracts containing such provisions and if the amount of reinsurance credit taken reflects the reduction in quota share coverage caused by any applicable limiting provision(s).

Response: Paragraph 80 was modified to capture contracts not subject to A-791 and not quota share contracts as shown in SSAP No. 62R, paragraph 114 because the requirements of A-791 do not allow significant risks which are required to be ceded to be limited. As currently drafted, the disclosure is written too broadly in that it may be capturing more nonproportional contracts with "standard" features than what is useful. See proposed clarification to paragraph 80 in the illustration below to remove stop loss or excess of loss reinsurance agreements with deductibles or loss caps that apply to the entire contract and are not adjustable based on other features from the disclosure.

4. Please clarify the intent and what information should be disclosed in subparagraphs 82.a. and 82.b.

a. We thought that for paragraph 82.a., the intent related to ceding companies with assumption reinsurance agreements (paragraph 60 of SSAP 61R) entered into during the current year for which indemnity reinsurance is being applied for policyholders who have not yet agreed to the transfer to the new insurer or for which the regulator has not yet approved the novation to the new insurer.

Response: Paragraph 82.a. is intended to reference assumption reinsurance agreements referenced in paragraph 60 of SSAP No. 61R entered into during the current year for which reinsurance credit is reported. It does not make a distinction regarding those that have or have not been approved by the policyholder. A simple reading of the disclosure is intended - to identify new assumption reinsurance agreements. This paragraph does not have a similar paragraph in SSAP No. 62R. See edits to SSAP No. 61R illustrated below which add reference to the contracts in paragraph 60.

b. With regard to paragraph 82.b., what is the concern related to non-proportionate contracts that do not provide significant surplus relief?

Response: Paragraph 82. b is proposed for deletion, as it does not provide useful information. This is because it would require disclosure of contracts which do not provide significant surplus relief and it is unclear what types of assumption reinsurance would be captured. This paragraph does not have a similar paragraph in SSAP No. 62R. See edits to SSAP No. 61R illustrated below.

5. How should an entity answer paragraphs 83-84 if no GAAP financial statements are prepared?

Response: If the reporting entity and or its holding company group does not prepare GAAP financials this is not an analysis that would be required. See proposed clarification in paragraph 83 below. AICPA representatives noted, and NAIC staff agrees, that because of A-791 differences there may be more life and health contracts reported differently for GAAP.

Recommended Revisions to SSAP No. 61R:

78. Disclosures for paragraphs 79-84 are required to be included with the annual audit report financial statements beginning with the period ended December 31, 2020, regarding reinsurance contracts. The disclosures required within paragraphs 79-84 ~~shall~~ can be included in accompanying supplemental schedules or the notes of the annual audit report beginning in year-end 2020. If not applicable, an affirmative statement that no such contracts were identified is acceptable. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1996. This limitation applies

to the annual audit report only and does not apply to the statutory annual statement interrogatories and the property and casualty reinsurance summary supplemental filing.

79. Disclose any [ceding](#) reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer's assumption of significant risks identified as in A-791. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks.

80. Disclose any [ceding](#) reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. [Note that a stop loss or excess of loss reinsurance agreement with deductibles or loss caps which apply to the entire contract and are not adjustable based on other features, do not require disclosure under this paragraph.](#) If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk-limiting features.

81. Disclose if any [assumed or ceded](#) reinsurance contracts contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

- a. Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).
- b. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

82. Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk-transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.

- a. Assumption Reinsurance – [as discussed in paragraph 60, which are](#) new for the reporting period.
- ~~b. Non proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured event(s) triggering contract coverage has been recognized.~~

83. Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- a. Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under [U.S.](#) generally accepted accounting principles (GAAP); or
- b. Accounted for that contract as reinsurance under [U.S.](#) GAAP and as a deposit under SAP.

[If the reporting entity does not prepare U.S. GAAP financial statements or its financial statements are not part of upstream U.S. GAAP financial statements, this disclosure can be answered not applicable.](#)

84. If affirmative disclosure is required for paragraph 83, explain why the contract(s) is treated differently for GAAP and SAP.

Staff Review Completed by: Robin Marcotte, NAIC Staff - November 2021

Status:

On December 11, 2021, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 61R, as illustrated above. These revisions intend to clarify, and in some cases, narrow the scope of certain disclosures. This agenda item has a shortened exposure period, ending Jan. 14, 2022, so that the Working Group may consider adoption for year-end 2021 reporting.

Revisions to SSAP No. 61R as they would be reflected in the publication for adoption consideration on January 27, 2022: (This tracking removes exposed revisions that were subsequently revised.)

78. Disclosures for paragraphs 79-84 apply to reinsurance contracts in effect for the current period covered by the statement and are required to be included with the annual audit report financial statements beginning with the period ended December 31, 2020, regarding reinsurance contracts. The disclosures required within paragraphs 79-84 shall be included in accompanying supplemental schedules of the annual audit report beginning in year-end 2020. If the disclosures are not applicable, an affirmative statement that no such contracts were identified is acceptable in the notes to the financial statements or the supplemental schedules. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1996. This limitation applies to the annual audit report only and does not apply to the statutory annual statement interrogatories and the property and casualty reinsurance summary supplemental filing.

79. Disclose any ceded reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer's assumption of significant risks identified as in A-791. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks.

80. Disclose any ceded reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. Note that a stop loss or excess of loss reinsurance agreement with deductibles or loss caps which apply to the entire contract and are not adjustable based on other features, do not require disclosure under this paragraph. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk-limiting features.

81. Disclose if any ceded reinsurance contracts contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

- a. Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).
- b. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

82. Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk-transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.

- a. Assumption Reinsurance – as discussed in paragraph 60, which are new for the reporting period.
- ~~b. Non-proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured event(s) triggering contract coverage has been recognized.~~

83. Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- a. Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under U.S. generally accepted accounting principles (GAAP); or
- b. Accounted for that contract as reinsurance under U.S. GAAP and as a deposit under SAP.

If the reporting entity does not prepare U.S. GAAP financial statements or its financial statements are not part of upstream U.S. GAAP financial statements, this disclosure can be answered not applicable.

84. If affirmative disclosure is required for paragraph 83, explain why the contract(s) is treated differently for GAAP and SAP.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2022/1-27-22/2 att - 21-31 Life Re Disclosures.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2022/1-27-22/2att-21-31LifeReDisclosures.docx)

**Statutory Accounting Principles (E) Working Group
January 27, 2022
Comment Letters Received**

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January 14, 2022

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Comments on the Items Exposed for Comment during the Statutory Accounting Principles Working Group (the “Working Group”) Meeting on December 11, 2021 with Comments Due January 14, 2022

Dear Mr. Bruggeman:

Interested parties would like to thank the Statutory Accounting Principles Working Group (the “Working Group”) for the opportunity to comment on the items exposed for comment with comments due January 14th. We offer the following comments:

Ref #2021-18: VM-21 Scenario Consistency Update

The Working Group exposed revisions, to SSAP No. 108— Derivatives Hedging Variable Annuity Guarantees, as illustrated in the proposal. The revisions, which incorporate edits proposed from Life Actuarial (A) Task Force representatives, ensure consistency with revisions to VM-21 by removing reference to the standard scenario while adding reference to the conditional tail expectation 70 guidance. This agenda item has a shortened exposure period, ending Jan. 14, 2022, so that the Working Group may consider adoption for year-end 2021 reporting.

Interested parties do not object to these changes.

Ref #2021-31: Life Reinsurance Disclosure Clarifications

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 61R, as in the proposal. These revisions intend to clarify, and in some cases, narrow the scope of certain disclosures. This agenda item also has a shortened exposure period, ending Jan. 14, 2022, so that the Working Group may consider adoption for year-end 2021 reporting.

Interested parties appreciate the exposure to clarify and narrow the scope of information requested in the SSAP No. 61R disclosures, specifically to paragraphs 78-83. Our understanding is that the original intent of these additional disclosures was to obtain information on ceded reinsurance. We note that the reference to “ceding” in paragraphs 79 and 80 should be “ceded” as is written in paragraph 81. For paragraph 81, we would suggest deleting “assumed or” so that the scope of disclosure remains consistent from 2020 to 2021 (with the extraneous disclosures clarified).

* * * * *

If you have any questions or would like to discuss these comments, please do not hesitate to contact us

Sincerely,

D. Keith Bell

Rose Albrizio

cc: Interested parties

To: The Statutory Accounting Principles (E) Working Group

From: Selected members of the American Institute of Certified Public Accountants' (AICPA) NAIC Task Force

Date: January 14, 2022

Thanks again for considering the comments we submitted in 2021 related to these new disclosures and in developing the Form A. The AICPA NAIC Task Force has two additional comments that we would also appreciate that you consider:

1. Several of our members pointed out it might be confusing and/or lead to inconsistent practice to allow the disclosures to be included in either the footnotes or a supplemental schedule, because footnotes and supplemental information provide different levels of auditor assurance. Therefore, it would be unusual to have the option to include the disclosures in either place. As a result, we are recommending the following revisions below as "friendly amendments" to maintain the disclosures in a supplemental schedule, consistent with 2020. (This is also consistent with the intent of our comments last year.)

78. Disclosures for paragraphs 79-84 are required to be included with the annual audit report financial statements beginning with the period ended December 31, 2020, regarding reinsurance contracts. The disclosures required within paragraphs 79-84 shall ~~can~~ be included in accompanying supplemental schedules ~~or the notes~~ of the annual audit report beginning in year-end 2020. If the disclosures are not applicable, an affirmative statement that no such contracts were identified is acceptable in the notes to the financial statements. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1996. This limitation applies to the annual audit report only and does not apply to the statutory annual statement interrogatories and the property and casualty reinsurance summary supplemental filing.

2. On a related issue and assuming the Working Group agrees to the changes above in paragraph 78 of SSAP No. 61R, we would like to comment on SAPWG's conclusion that the life reinsurance supplemental schedule should be comparative. The other required schedules to the financial statements do not require comparable information. (A list of the schedules is below.) For these schedules, the annual statement instructions set out the form and content of the schedules which reflects a one year presentation. It would be useful to understand why this schedule would be different and if that was the intent of SAPWG. Do you know whether the decision to make the disclosure comparable considered that the other required schedules are not required to be comparable? In either case, we would like to request that the guidance in SSAP 61R (or in the 2022 annual statement instructions) state whether the schedule should be comparative.

With regard to the conclusion in the minutes that indicates that the change would be done prospectively, this seems like an accommodation to prevent companies from having to fix prior years (which we don't want to discourage), but there could be some complexity in reporting on a comparative schedule that is not comparable because the guidance changed (e.g., the basis for preparing the schedule is not comparable) and could lead to diversity in approach in how individual companies and auditors deal with reporting in the current year.

Below is a list of current supplemental schedules which are not comparative (i.e. only the current year is presented)

- Supplemental schedule of assets and liabilities
- Supplemental schedule of Investment Risk Interrogatories
- Summary Investment Schedule
- Supplemental P/C Reinsurance Contracts Disclosures

Thanks

Kim

Kim Kushmerick

Director, Accounting Standards — Public Accounting