Statutory Accounting Principles (E) Working Group
Hearing Agenda
November 10, 2021
10:00 – 11:00 a.m. CT

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

REVIEW AND DISCUSSION - AGENDA ITEMS WITH DISCUSSION

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-15 SSAP No. 43R (Julie)	**SSAP No. 43R – Residual Tranches**	**1 – Agenda Item**	**Comments Received**	**IP – 1**

Summary:
On September 9, 2021, the Working Group exposed revisions to *SSAP No. 43R—Loan-Backed and Structured Securities* to clarify that non-rated residual tranches shall be reported on Schedule BA-Other Long-Term Invested Assets and valued at the lower of cost or fair value.

This agenda item was drafted due to identified inconsistencies for reporting residual tranches. From information received, some entities already report residual tranches on Schedule BA and other entities report these tranches on Schedule D-1: Long-Term Bonds with either a self-assigned 5GI or a self-assigned NAIC 6 designation. It has been noted that use of the NAIC 5GI process for these residual tranches is an incorrect application of the guidance as 1) there are no contractual interest and principal payments to certify as current, and 2) the insurer cannot have an actual expectation of receiving all contractual principal and interest of the underlying collateral as these tranches absorb the losses first for the securitization structure. Although cash flows may pass through to these holders at periodic intervals in a waterfall payment structure (a system in which the senior lenders/tranches receive principal and interest payments while other, subordinate lenders/tranches only receive principal and interest payments after the senior lenders/tranches have been paid), ultimate returns depend on continued performance, therefore, there can be no actual expectation that future payments will be received.

Interested Parties' Comments:
IPs have the following comments related to the proposal:

1) IPs agree that residual tranches or interests in scope of SSAP No. 43R, which meet the definition in the proposed footnote, should be reported on Schedule BA at lower of cost or market ("LOCOM").

Some companies already report such investments on Schedule BA and others report them on Schedule D measured at either LOCOM or amortized cost. We believe the proposed change in reporting would be cost justified as it would not be overly burdensome to insurers and would provide consistent reporting by insurers. It also would provide additional information for regulators to continue to evaluate such investments.

2) IPs believe an effective date of 12/31/2021 is achievable with regard to rating all residual tranches in the scope of SSAP No. 43R as NAIC 6. However, for various reasons noted below, IPs do not believe it would be feasible to transfer those residual tranches currently reported on Schedule D to Schedule BA for year-end 2021 reporting.

   In conversations with NAIC staff and regulators, while working on the Working Group's Bond Project (formerly known as the 43R Project), IPs have been asked if adopting the proposal effective 12/31/2021 is feasible and also if reporting such interests on Schedule BA separately depending on the underlying collateral (e.g., fixed income, equity, real estate, etc.; same categories that currently exist on Schedule BA) would be feasible beginning at year-end 2022.

   IPs believe that the 12/31/2021 reporting is not feasible as it would be operationally difficult to change processes in a timely manner prior to year-end reporting, including any vendor modifications that would be required, as well as address downstream implications such as impacts on cash flow statements and investment schedule rollforwards, etc., to ensure there are no unintended consequences related to the various statutory blanks and related processes. IPs support making such a change beginning at year-end 2022 and support the more granular reporting requested (i.e., based on underlying collateral) as it will allow the requisite amount of time to address those operational items discussed above. IPs also support allowing those companies that can address their processes prior to year-end 2021, the opportunity to transfer the residual tranches in scope from Schedule D to BA in 2021. It is important that the Working Group make companies aware that (1) the transfer of residual tranches to Schedule BA is optional for year-end 2021/quarterly 2022 and (2) if they choose to transfer the residual tranches to Schedule BA at year-end 2021, they would also be required to transfer them at year-end 2022 into the more granular categories discussed above based on underlying collateral (e.g., equities, fixed income, real estate, etc.). For those companies that decide to transfer the residual tranches in 2021, Blanks instructions would be needed well in advance of year-end to provide clarity related to the following:

   - The specific section and subsection of Schedule BA where the residual tranches and interests in scope of this proposal would be reported.

   - How the various existing columns of Schedule BA would be used for such investments. For example, Schedule BA "cost" would be used to report "amortized cost" for such investments.

   - Communicating that LOCOM would be applied to such investments and clarifying where both amortized cost and fair value would be reported on the existing Schedule BA.

3) IPs recommend certain modifications to the proposed footnote and changes to SSAP No. 43R as follows:

   - Eliminate the reference to "non-rated" in paragraphs 26a, b, and c and the proposed footnote. IPs recommend eliminating the reference to non-rated as its definition may be interpreted inconsistently by various insurers (e.g., rated by the NAIC, rated by an NRSRO, insurer-rated such as NAIC 5 or 6?). We believe the intent is to exclude from Schedule D reporting, those investments that are typically not rated in the investment markets because their characteristics are not debt-like (e.g., no contractual payments of principal and/or interest) and thus we believe the inclusion of only the criteria "no contractual payments of principal and/or interest" will capture all investments intended to be captured.

- IPs recommend removing the term "structured finance investments" from the footnote as it is an undefined term and is not clear to IPs at to what it is intended to capture. We believe retaining the references to "securitization tranches and beneficial interests" is adequate and would be understood to include all those investments intended by the regulators to be in the scope of the proposal.

- IPs recommend modifying the footnote to include those investments "…that reflect loss layers without contractual interest or principal payments" to those investments "…that reflect loss layers without any contractual payments, whether principal, interest, or both." This proposed change would be more complete and "all-encompassing."

- Ensure LOCOM is clarified to be "lower of **amortized cost** or market." The use of the term "amortized cost" versus "cost" more accurately reflects the type of investment and is more aligned with the use of the term in existing SSAP No. 43R.

The following proposal reflects IPs comments discussed above as related to the footnote:

"Reference to "residual tranches or interests" intends to capture securitization tranches and beneficial interests as well as other structures captured in scope of this statement, that reflect loss layers without any contractual payments, whether principal, interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment's duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments."

<u>*Recommended Action:*</u>
NAIC staff recommends that the Working Group adopt the exposed revisions to SSAP No. 43R, modified to reflect the interested parties' comments, as detailed below. Additionally, the revisions are proposed to have a December 31, 2022, effective date, with early application permitted. (This means that reporting entities can continue reporting on D-1 for 2021 but could reclassify to Schedule BA either to "Other" or another Schedule BA reporting line that is appropriate for the investment for year-end 2021.) The year-end 2022 effective date to require reporting on Schedule BA corresponds with blanks proposal 2021-21BWG. This blanks proposal expands the Schedule BA reporting lines to capture residual tranches based on underlying characteristics of fixed-income, common stock, real estate, mortgage loans and other. (These are the same categories used for items reported on Schedule BA in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*.) (In addition to the IP edits, slight changes on the reference to AVR have been incorporated to mirror other instances in the SSAP.)

For residual tranches or interests retained on Schedule D-1 as of December 31, 2021, it is recommended that a joint memo from the Working Group and Valuation of Securities (E) Task Force be provided to the Blanks (E) Working Group to clarify that a self-assigned NAIC 5GI is not permitted for residual tranches, and such items reported on Schedule D-1 are required to be reported with an NAIC 6 designation. A referral to the Valuation of Securities (E) Task Force is recommended to support edits to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* to mitigate future misapplication of the NAIC 5GI process.

Proposed edits to the exposure reflect this recommendation along with the proposed interested parties' edits are shown below:

Proposed edits to *SSAP No. 43R:*
(Revisions from the exposure shaded in gray.)

26. Loan-backed and structured securities shall be valued and reported in accordance with this statement, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, and the

designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office or equivalent specified procedure. The carrying value method shall be determined as follows:

a. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed and structured securities, excluding ~~non-rated~~ residual tranches or interests, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value.

b. For reporting entities that do not maintain an AVR, loan-backed and structured securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), excluding ~~non-rated~~ residual tranches or interests, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

c. For ~~non-rated~~ residual tranches or interests[FN] captured in scope of this statement, all reporting entities ~~(regardless of AVR)~~ shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

New Footnote: Reference to "~~non-rated~~ residual tranches or interests" intends to capture securitization tranches and beneficial interests~~, interests of structured finance investments,~~ as well as other structures captured in scope of this statement, that reflect loss layers without any contractual payments, whether principal or interest, or both. ~~interest or principal payments.~~ Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment's duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.

Effective Date Guidance: *(The proposed subparagraph 56.h. below is new)*

56. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. Subsequent revisions to this statement include:

a. Substantive revisions pertaining to valuation and impairment based on expected cash flows, as detailed in *Issue Paper No. 140—Substantive Revisions to SSAP No. 43—Loan-Backed and Structured Securities*, were effective September 30, 2009. (Transition guidance previously included in SSAP No. 43R was removed from the SSAP in the *As of March 2018 Accounting Practices and Procedures Manual* but is retained for historical purposes in the issue paper.)

b. Substantive revisions to incorporate a new method to determine the final NAIC designation were effective, on a prospective basis, for reporting periods ending on or after December 31, 2009. In 2011, revisions were incorporated to this process to be consistent with the (P&P Manual). These revisions expanded the guidance to explicitly detail the process for "financial modeling" and "modified filing exempt" securities.

c. Nonsubstantive revisions to clarify the accounting for gains and losses between AVR and IMR securities were adopted in June 2010 with a January 1, 2011, effective date with early application allowed. Reporting entities that had previously bifurcated gains and losses between AVR and IMR for sale transactions were restricted from reversing prior bifurcations and were prohibited from reverting to a process that did not bifurcate gains and losses in the period between adoption and the effective date.

d. Nonsubstantive revisions, reflected in paragraph 50, to incorporate guidance from *INT 00-11: EITF 98-15: Structured Notes Acquired for a Specified Investment Strategy* were effective September 11, 2000.

e. Nonsubstantive revisions pertaining to the calculation of investment income for prepayment penalty and/or acceleration fees, reflected in paragraph 13, were effective January 1, 2017, on a prospective basis with early application permitted.

f. Nonsubstantive revisions to eliminate the modified filing exempt (MFE) method were effective March 31, 2019, with early adoption permitted for year-end 2018. Early adoption was considered an "all or nothing" approach. As such, reporting entities that did not elect to early adopt were required to apply the MFE process to all applicable SSAP No. 43R securities as of year-end 2018, whereas reporting entities that elected to early adopt were not permitted to use the MFE process for any SSAP No. 43R securities for year-end 2018.

g. Revisions adopted April 2019 to explicitly include mortgage-referenced securities in scope of this statement are effective December 31, 2019.

~~g.~~h. Nonsubstantive revisions adopted in November 2021 to clarify that residual tranches or interests (as defined in footnote ____) shall be reported at the lower of amortized cost or fair value on Schedule BA: Other Invested Assets are effective December 31, 2022. Reporting entities may elect to reclassify residual tranches or interests to Schedule BA in advance of the effective date. As of the effective date, residual tranches or interests previously reported on Schedule BA shall be reclassified to the appropriate residual tranche Schedule BA reporting line based on the underlying characteristics of the investment structure.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-12EP Multiple (Robin)	**Editorial Updates**	**2 – Agenda Item**	**No Comments**	**IP - 6**

Summary:
On August 26, the Working Group exposed editorial revisions as summarized below:

- *Preamble* – Incorporates a paragraph number for the existing statutory hierarchy section.

- *Appendix A-001* - Updates designation codes for preferred stock as noted in section 2 of *Appendix A-001: Investments of Reporting Entities.*

- Appendix C - Updates reference to the *former* Emerging Actuarial Issues (E) Working Group as well as adding reference to the Valuation Analysis (E) Working Group's use of included interpretations.

- *Appendix C-2* - Updates reference to the *former* Emerging Actuarial Issues (E) Working Group as well as adding reference to the Valuation Analysis (E) Working Group's use of included interpretations.

- *SSAP No. 21R—Other Admitted Assets* - Updates improve the readability of paragraph 9 regarding receivables for securities.

Interested Parties' Comments:
Interested parties have no comment on this item.

Recommended Action:
NAIC staff recommends that the Working Group adopt the editorial revisions to the Preamble, Appendix A-001, Appendix C, Appendix C-2 and SSAP No. 21R as final.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-13 SSAP No. 55 (Robin)	**Salvage – Legal Recoveries**	**3 – Agenda Item**	**Yes**	**IP - 6**

Summary:
On August 26, the Working Group exposed revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* to clarify that subrogation recoveries should be reported as a reduction of losses and/or loss adjusting expense (LAE) reserves, depending on the nature of the costs being recovered. While this is believed to already be consistent with current practices of a majority of reporting entities, the revisions clarify that salvage and subrogation estimates and recoveries can include amounts related to both claims/losses and loss adjusting expenses (LAE). The corresponding estimates should be reported as a reduction of losses and/or LAE reserves, however once the amounts for salvage and subrogation and coordination of benefits (COB) are received, they shall be reported as a reduction of paid losses and LAE depending on the nature of the costs being recovered.

Interested Parties' Comments:
Interested parties support this proposal.

Recommended Action:
NAIC staff recommend that the Working Group adopt the exposed nonsubstantive revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*, which clarify that subrogation recoveries should be reported as a reduction of losses and/or loss adjusting expense reserves, depending on the nature of the costs being recovered. Included in this adoption is an updated to the related disclosures to reflect the reporting of estimated salvage and subrogation and their impact on unpaid claims, losses, or associated LAE.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
INT 21-02T SSAP No. 6 (Jake)	**Extension of Ninety-Day Rule for the Impact of Hurricane Ida**	**3 – Agenda Item**	**In Agreement**	**IP - 7**

Summary:
On September 9 the Working Group exposed, via e-vote, a tentative interpretation (INT) to provide an optional 60-day extension from the "ninety-day rule" in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agenda and Brokers* for related items that were directly impacted by Hurricane

Ida. This INT is consistent with previous temporary extensions granted for other nationally significant catastrophes and is proposed to automatically nullify on January 24, 2022.

Interested Parties' Comments:
Interested parties support this proposal.

Recommended Action:
NAIC staff recommends adoption of the exposed INT. Due to the short-term nature of the applicability of this extension, which expires January 23, 2022, this interpretation will be publicly posted on the Statutory Accounting Principles (E) Working Group's website. Once the INT is nullified (on January 24, 2022) it will be included in *Appendix H – Superseded SSAPs and Nullified Interpretations* in the *As of March 2022 Accounting Practices and Procedures Manual*.

Note that the proposed extension temporarily overrides SSAP No. 6, paragraph 9, for affected policies; therefore, the policy statement in Appendix F (see authoritative literature) requires 2/3rd (two-thirds) of the Working Group members to be present and voting and a supermajority of the Working Group members present to vote in support of the interpretation before it can be finalized.

The comment letters are included as Attachment 5 (8 pages).

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2021/12. November Call/00 - 8-26-21 - SAPWG Hearing - 32R and 97.docx

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

Issue: SSAP No. 43R – Residual Tranches

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: Although the broad principles-based bond proposal project is establishing principles for reporting investments on Schedule D-1: Long-Term Bonds, it has been identified that there is current inconsistency in practice for the reporting of non-rated residual tranches for structures captured in scope of *SSAP No. 43R—Loan-Backed and Structured Securities*. To address this current inconsistency, it has been requested that revisions occur as an interim step to provide specific accounting and reporting for these items.

As background information, SSAP No. 43R provides guidance for investments in loan-backed and structured securities, as well as purchased and retained beneficial interests in securitized financial assets. The guidance presumes that the investments within scope reflect fixed-income instruments, particularly with the Schedule D-1: Long-Term Bond reporting as well as the amortized cost measurement method, but it has been identified that non-rated, first loss layers without contractual principal or interest (known as residual tranches or interests) are technically captured within the legal-form structure currently permitted within scope of the guidance.

As part of the principles-based bond project discussions, it has been identified that some entities report these residual investments on Schedule BA: Other Long-Term Investments. However, it has been noted that other entities report these residual tranches on Schedule D-1, as in scope of SSAP No. 43R. Since items on Schedule D-1 are required to have NAIC designations, and these tranches are not (and cannot be) rated from a CRP or receive an NAIC designation, some entities have applied the "NAIC 5GI" process to self-assign an NAIC 5 designation. For life entities, an NAIC 5 permits an amortized cost valuation and for all lines of business a NAIC 5 receives a lower RBC charge than what is received if reporting on Schedule BA.

The NAIC 5GI process permits entities to self-assign an NAIC 5 when they can certify to the following three components:

1. Documentation necessary to permit a full credit analysis of the security does not exist or an NAIC CRP ratings for an FE or PL security is not available.

2. The issuer or obligor is current on all contracted interest and principal payments.

3. The insurer has an actual expectation of ultimate payment of all contracted interest and principal payments.

Use of the NAIC 5GI process for non-rated residual investments is an incorrect application of the guidance as 1) there are no contracted interest and principal payments to certify as current and 2) the insurer cannot have an actual expectation of receiving all contractual principal and interest of the underlying collateral as these tranches absorb the losses first for the securitization structure. Although cash flows may pass through to these holders at periodic intervals in the waterfall, ultimate returns depend on continued performance, therefore, there can be no actual expectation that future payments will be received.

From the discussions that have occurred on the principles-based bond project, there is general agreement that these non-rated residual tranches do not belong on Schedule D-1 as long-term bonds. This agenda item proposes minor revisions to SSAP No. 43R, as an interim action in advance of the adoption of the principles-based bond project, to prescribe the accounting and reporting for these non-rated residual investments to ensure consistent reporting. As detailed, it is proposed that these items remain in scope of SSAP No. 43R, as they are a component of a securitization, with specific guidance to report on Schedule BA with a lower of cost or fair value measurement.

Existing Authoritative Literature:

Reporting Guidance for All Loan-Backed and Structured Securities

26. Loan-backed and structured securities shall be valued and reported in accordance with this statement, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, and the designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office or equivalent specified procedure. The carrying value method shall be determined as follows:

    a. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed and structured securities shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value.

    b. For reporting entities that do not maintain an AVR, loan-backed and structured securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

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): The Statutory Accounting Principles (E) Working Group has a comprehensive project to establish principles-based concepts for the definition for bond investments for reporting on Schedule D-1: Long-Term Bonds. This separate agenda item was directed as an interim action on Aug. 26, 2021, as it was identified that there is inconsistent reporting for non-rated residual tranches, with some entities reporting these non-rated loss-layer investments on D-1 with a self-assigned NAIC 5GI designation.

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

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a new SAP concept, and expose revisions to SSAP No. 43R to establish specific accounting and reporting guidance for non-rated residual tranches or interests. Additionally, it is recommended that the Working Group sponsor a blanks proposal to capture a new reporting line specific for these items on Schedule BA and send a referral to the Valuation of Securities (E) Task Force to identify that the NAIC 5GI process shall not be used to self-assign an NAIC designation to non-rated residual investments.

Proposed edits to *SSAP No. 43R:*

Reporting Guidance for All Loan-Backed and Structured Securities

26. Loan-backed and structured securities shall be valued and reported in accordance with this statement, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, and the designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office or equivalent specified procedure. The carrying value method shall be determined as follows:

a. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed and structured securities, excluding non-rated residual tranches or interests, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value.

b. For reporting entities that do not maintain an AVR, loan-backed and structured securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), excluding non-rated residual tranches or interests, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

c. For non-rated residual tranches or interests[FN] captured in scope of this statement, all reporting entities (regardless of AVR) shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses.

New Footnote: Reference to "non-rated residual tranches or interests" intends to capture securitization tranches, beneficial interests, interests of structured finance investments, as well as other structures captured in scope of this statement, that reflect loss layers without contractual interest or principal payments. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment's duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.

Staff Review Completed by: Julie Gann, NAIC Staff – September 2021

Status:
On September 9, 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. 43R—Loan-Backed and Structured Securities* to clarify that non-rated residual tranches shall be reported on Schedule BA – Other Long-Term Investments and valued at the lower of cost or fair value.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2021/12. November Call/1 - 21-15 - SSAP No. 43R -Residual Tranches.docx

NAIC Accounting Practices and Procedures Manual
Editorial and Maintenance Update
August 26, 2021

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting.

SSAP/Appendix	Description/Revision
Preamble	Incorporates a paragraph number for the existing statutory hierarchy section.
Appendix A-001	Updates designation codes for preferred stock as noted in section 2 of *Appendix A-001: Investments of Reporting Entities.*
Appendix C	Updates reference to the *former* Emerging Actuarial Issues (E) Working Group as well as adding reference to the Valuation Analysis (E) Working Group's use of included interpretations.
Appendix C-2	Updates reference to the *former* Emerging Actuarial Issues (E) Working Group as well as adding reference to the Valuation Analysis (E) Working Group's use of included interpretations.
SSAP No. 21R	Updates improve the readability of paragraph 9 regarding receivables for securities.

Recommendation:
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorize as nonsubstantive, and expose editorial revisions as illustrated below.

Status:
On August 26, 2021, the Statutory Accounting Principles (E) Working Group exposed the editorial revisions for comment.

Preamble

41. The multitude of unique circumstances and individual transactions makes it virtually impossible for any codification of accounting principles to be totally comprehensive. Application of SAP, either contained in the SSAPs or defined as GAAP and adopted by the NAIC, to unique circumstances or individual transactions should be consistent with the concepts of conservatism, consistency, and recognition.

V. Statutory Hierarchy

42. The following Hierarchy is not intended to preempt state legislative and regulatory authority.

Level 1

- SSAPs, including U.S. GAAP reference material to the extent adopted by the NAIC from the FASB Accounting Standards Codification[1] (FASB Codification or GAAP guidance)

Level 2

- Consensus positions of the Emerging Accounting Issues (E) Working Group as adopted by the NAIC (INTs adopted before 2016)

- Interpretations of existing SSAPs as adopted by the Statutory Accounting Principles (E) Working Group (INTs adopted in 2016 or beyond)

Level 3

- NAIC Annual Statement Instructions
- Purposes and Procedures Manual of the NAIC Investment Analysis Office

Level 4

- Statutory Accounting Principles Preamble and Statement of Concepts[2]

Level 5

- Sources of nonauthoritative GAAP accounting guidance and literature, including: (a) practices that are widely recognized and prevalent either generally or in the industry, (b) FASB Concept Statements, (c) AICPA guidance not included in FASB Codification, (d) International Financial Reporting Standards, (e) Pronouncements of professional associations or regulatory agencies, (f) Technical Information Service Inquiries and Replies included in the AICPA Technical Practice Aids, and (g) Accounting textbooks, handbooks and articles

43~~2~~. If the accounting treatment of a transaction or event is not specified by the SSAPs, preparers, regulators and auditors of statutory financial statements should consider whether the accounting treatment is specified by another source of established statutory accounting principles. If an established statutory accounting principle from one or more sources in Level 2 or 3 is relevant to the circumstances, the preparer, regulator or auditor should apply such principle. If there is a conflict between statutory accounting principles from one or more sources in Level 2 or 3, the preparer, regulator or auditor should follow the treatment specified by the source in the higher level—that is, follow Level 2 treatment over Level 3. Revisions to guidance in accordance with additions or revisions to the NAIC statutory hierarchy should be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

[1] Effective September 15, 2009, the FASB Codification is the source of authoritative U.S. generally accepted accounting principles. As of that date, the FASB Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the FASB Codification is nonauthoritative. As of September 15, 2009, AICPA Statements of Position are no longer reviewed as part of the statutory maintenance process as they are no longer considered authoritative GAAP literature. If the AICPA were to address an issue that affects the FASB Codification, an accounting standard update (ASU) would be issued and reviewed for applicability to statutory accounting.

[2] The Statutory Accounting Principles Statement of Concepts incorporates by reference FASB Concepts Statements One, Two, Five and Six to the extent they do not conflict with the concepts outlined in the statement. However, for purposes of applying this hierarchy the FASB Concepts Statements shall be included in Level 5 and only those concepts unique to statutory accounting as stated in the statement are included in Level 4.

Appendix A-001 Investments of Reporting Entities

Update designation codes for preferred stock – the codes marked for deletion are no longer in use. Note: the blanks have already been updated through an editorial update that occurred in March 2021.

Section 2. Investment Risks Interrogatories

3.Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation:

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC – 1	$................	.............%	3.07	NAIC ~~P/RP~~ – 1	$.............	.... %
3.02	NAIC – 2	$................	.............%	3.08	NAIC ~~P/RP~~ – 2	$.............	.... %
3.03	NAIC – 3	$................	.............%	3.09	NAIC ~~P/RP~~ – 3	$.............	.... %

3.04	NAIC – 4	$...............	............%	3.10	NAIC ~~P/RP~~ – 4	$.............	.... %
3.05	NAIC – 5	$...............	............%	3.11	NAIC ~~P/RP~~ – 5	$.............	.... %
3.06	NAIC – 6	$...............	............%	3.12	NAIC ~~P/RP~~ – 6	$.............	.... %

Appendix C Actuarial Guidelines - Appendices

Updates reference to the *former* Emerging Actuarial Issues (E) Working Group as well as adding reference the Valuation Analysis (E) Working Group's use of included interpretations.

Includes interpretations from the former Emerging Actuarial Issues (E) Working Group adopted by the Financial Condition (E) Committee. The Financial Analysis (E) Working Group and the Valuation Analysis (E) Working Group follow~~s~~ these interpretations ~~in~~when performing ~~its~~ reviews of the reserving methodologies under *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38).

Appendix C-2 Interpretations of the Emerging Actuarial Issues (E) Working Group

Updates reference to the *former* Emerging Actuarial Issues (E) Working Group as well as adding reference the Valuation Analysis (E) Working Group's use of included interpretations.

Introduction

The former Emerging Actuarial Issues (E) Working Group (EAIWG) and the current Valuation Analysis (E) Working Group (VAWG) respond~~s~~ to questions of application, interpretation and clarification with respect to *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38). Following an abbreviated public comment and review period of no less than seven days, the Working Group will adopt by consensus formal interpretations on issues presented before it. These interpretations will then be reported to the Financial Condition (E) Committee, which, after adopting, will direct the Financial Analysis (E) Working Group to follow the interpretations in performing its reviews of the reserving methodologies under AG 38. These interpretations will not become effective until formally adopted by the Financial Condition (E) Committee. In no event shall a consensus opinion of the former EAIWG~~Working Group~~ or current VAWG supersede or otherwise conflict with AG 38.

SSAP No. 21R—Other Admitted Assets

Updates improve the readability of paragraph 9 regarding receivables for securities.

9. Sales of securities are recorded as of the trade date. A receivable due from the broker is established in instances when a security has been sold, but the proceeds from the sale have not yet been received. Unless the receivable for securities~~,~~ meets the criteria set forth in paragraph 11, the receivable for securities is an admitted asset to the extent it conforms to the requirements of this statement. For ~~other than a~~ receivables arising from the sale of a security which was acquired on a "To Be Announced" ("TBA") basis, or from the sale of securities that are received as stock distributions that may be restricted (unregistered) or in physical form, and which has yet to be actually received, admissibility shall be in accordance with ~~(see~~ paragraph 12.~~), meets the criteria set forth in paragraph 11, the receivable for securities is an admitted asset to the extent it conforms to the requirements of this statement.~~

Status:

On August 26, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed editorial revisions to the Preamble, *Appendix A-001: Investments of Reporting Entities, Appendix C Actuarial Guidelines – Appendices, Appendix C-2 Interpretations of the Emerging Actuarial Issues (E) Working Group,* and *SSAP No. 21R —Other Admitted Assets, as illustrated above.*

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

Issue: Salvage - Legal Recoveries

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:
This agenda item recommends nonsubstantive revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* to clarify that salvage and subrogation estimates and recoveries can include amounts related to both claims/ losses and loss adjusting expenses. The corresponding estimates should be reported as a reduction of losses and/or loss adjusting expense (LAE) reserves. Once the amounts for salvage and subrogation and coordination of benefits recoveries (COB) are received, they are reported as a reduction of paid losses and LAE depending on the nature of the costs being recovered.

SSAP No. 55 contains salvage and subrogation guidance. Key points of the guidance regarding salvage, subrogation and COB are as follows:

- Salvage, subrogation and coordination of benefits recoveries are estimated using the same techniques used for estimating unpaid claims/losses and unpaid loss adjusting expenses.
- Separate recoverables are not established. Estimated salvage, subrogation and coordination of benefit recoveries (net of associated expenses) are deducted from the liability for unpaid claims or losses (for reporting entities that choose to anticipate such recoveries).
- Salvage, subrogation and coordination of benefits recoveries received (net of associated expenses) are reported as a reduction to paid losses/claims.

This agenda item is in response to an industry request. The proposed clarification provides additional detail regarding loss adjusting expenses for salvage, subrogation and coordination of benefits that is believed to be consistent with current practice by a majority of reporting entities. For example, if legal fees are recovered in a subrogation lawsuit, it is believed that such amounts are currently being reported as reduction in paid adjusting expenses for legal fees. SSAP No. 55 does not explicitly discuss the recovery of loss adjusting expenses in the discussion of salvage, subrogation and COB. However, the property and casualty annual statement instructions, which are level two on the statutory hierarchy of authoritative literature, includes an explicit reference to reduce loss adjusting expenses for such amounts in the Schedule P instructions (See Existing Authoritative Literature below).

Existing Authoritative Literature:

SSAP No. 55 provides the following (bolding added for emphasis):

General

11. The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience. These liabilities shall not be discounted unless authorized for specific types of claims by specific SSAPs, including SSAP No. 54R and *SSAP No. 65—Property and Casualty Contracts*.

12. Various analytical techniques can be used to estimate the liability for IBNR claims, future development on reported losses/claims, and loss/claim adjustment expenses. These techniques generally consist of statistical analysis of historical experience and are commonly referred to as loss reserve projections. The estimation process is generally performed by line of business, grouping contracts with like characteristics and policy provisions. The decision to use a particular projection method and the results obtained from that method shall be evaluated by considering the inherent assumptions underlying the method and the appropriateness of those assumptions to the circumstances. No single projection method is inherently better than any other in all circumstances. The results of more than one method should be considered.

13. For each line of business and for all lines of business in the aggregate, management shall record its best estimate of its liabilities for unpaid claims, unpaid losses, and loss/claim adjustment expenses. Because the ultimate settlement of claims (including IBNR for death claims and accident and health claims) is subject to future events, no single claim or loss and loss/claim adjustment expense reserve can be considered accurate with certainty. Management's analysis of the reasonableness of claim or loss and loss/claim adjustment expense reserve estimates shall include an analysis of the amount of variability in the estimate. If, for a particular line of business, management develops its estimate considering a range of claim or loss and loss/claim adjustment expense reserve estimates bounded by a high and a low estimate, management's best estimate of the liability within that range shall be recorded. The high and low ends of the range shall not correspond to an absolute best-and-worst case scenario of ultimate settlements because such estimates may be the result of unlikely assumptions. Management's range shall be realistic and, therefore, shall not include the set of all possible outcomes but only those outcomes that are considered reasonable. Management shall also follow the concept of conservatism included in the Preamble when determining estimates for claims reserves. However, there is not a specific requirement to include a provision for adverse deviation in claims.

14. In the rare instances when, for a particular line of business, after considering the relative probability of the points within management's estimated range, it is determined that no point within management's estimate of the range is a better estimate than any other point, the midpoint within management's estimate of the range shall be accrued. It is anticipated that using the midpoint in a range will be applicable only when there is a continuous range of possible values, and no amount within that range is any more probable than any other. For purposes of this statement, it is assumed that management can quantify the high end of the range. If management determines that the high end of the range cannot be quantified, then a range does not exist, and management's best estimate shall be accrued. This guidance is not applicable when there are several point estimates which have been determined as equally possible values, but those point estimates do not constitute a range. If there are several point estimates with equal probabilities, management should determine its best estimate of the liability.

15. If a reporting entity chooses to anticipate salvage and subrogation recoverables (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), the recoverables shall be estimated in a manner consistent with paragraphs 11-13 of this statement. Estimated salvage and subrogation recoveries (net of associated expenses) shall be deducted from the liability for unpaid claims or losses. If a reporting entity chooses to anticipate coordination of benefits (COB) recoverables of Individual and Group Accident and Health Contracts, the recoverables shall be estimated in a manner consistent with paragraphs 11-13 of this statement and shall be deducted from the liability for unpaid claims or losses. A separate receivable shall not be established for these recoverables. In addition, all of these recoverables are also subject to the impairment guidelines established in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* and an entity shall not reduce its reserves for any recoverables deemed to be impaired. Salvage and subrogation recoveries received (net of associated expenses) are reported as a reduction to paid losses/claims. Coordination of benefits (COB) recoveries received of Individual and Group Accident and Health Contracts (net of associated expenses) are reported as a reduction to paid claims.

16. Changes in estimates of the liabilities for unpaid claims or losses and loss/claim adjustment expenses resulting from the continuous review process, including the consideration of differences between estimated and actual payments, shall be considered a change in estimate and shall be recorded in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. SSAP No. 3 requires

changes in estimates to be included in the statement of operations in the period the change becomes known. This guidance also applies to the period subsequent to the March 1 filing deadline for annual financial statements through the filing deadline of June 1 for audited annual financial statements.

Disclosures

17. The financial statements shall include the following disclosures for each year full financial statements are presented. The disclosure requirement in paragraph 17.d. is also applicable to the interim financial statements if there is a material change from the amounts reported in the annual filing. Life and annuity contracts are not subject to this disclosure requirement.

a. The balance in the liabilities for unpaid claims and unpaid losses and loss/claim adjustment expense reserves at the beginning and end of each year presented;

b. Incurred claims, losses, and loss/claim adjustment expenses with separate disclosures of the provision for insured or covered events of the current year and increases or decreases in the provision for insured or covered events of prior years;

c. Payments of claims, losses, and loss/claim adjustment expenses with separate disclosures of payments of losses and loss/claim adjustment expenses attributable to insured or covered events of the current year and insured or covered events of prior years;

d. The reasons for the change in the provision for incurred claims, losses, and loss/claim adjustment expenses attributable to insured or covered events of prior years. The disclosure should indicate whether additional premiums or return premiums have been accrued as a result of the prior-year effects. (For Title reporting entities, “provision” refers to the known claims reserve included in Line 1 of the Liabilities page, and “prior years” refers to prior report years);

e. Information about significant changes in methodologies and assumptions used in calculating the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements for the most recent reporting period presented;

f. A summary of management’s policies and methodologies for estimating the liabilities for losses and loss/claim adjustment expenses, including discussion of claims for toxic waste cleanup, asbestos-related illnesses, or other environmental remediation exposures;

g. Disclosure of the amount paid and reserved for losses and loss/claim adjustment expenses for asbestos and/or environmental claims, on a direct, assumed and net of reinsurance basis (the reserves required to be disclosed in this section shall exclude amounts relating to policies specifically written to cover asbestos and environmental exposures). Each company should report only its share of a group amount (after applying its respective pooling percentage) if the company is a member of an intercompany pooling agreement; and

h. **Estimates of anticipated salvage and subrogation (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), deducted from the liability for unpaid claims or losses**.

The Property and Casualty Annual Statement Instructions for Schedule P, Part 1 discuss salvage and subrogation regarding loss reserve and paid claims and **then provide additional detail regarding losses and loss adjusting expenses in a later paragraph as excerpted below** (**bolding added for emphasis**);

Cumulative salvage and subrogation received and losses and expenses paid should be reported for each specific year. For “prior,” report only salvage and subrogation received and losses and expenses paid in current year.

In Schedule P, Part 1, salvage and subrogation received should be reported net of reinsurance, if any. Loss payments are to be reported net of salvage and subrogation received in Schedule P.

Adjusting & Other Payments, Column 9, should only reflect ceded recoveries made in 1997 and subsequent. Adjusting & Other Payments, Column 8, should reflect net payments in 1996 and prior and direct and assumed payments for 1997 and
subsequent.

Premiums earned and losses paid, unpaid, and incurred should reconcile with the Statement of Income page. The workpapers that show a reconciliation explaining reinsurance, discounting, and salvage and subrogation adjustments should be available for examination on request.

Report in Column 23 the estimated amount of anticipated salvage and subrogation that has been taken as credit (netted) in the reserves for **unpaid losses and loss adjustment expenses** reported in Column 24. (Note: Column 23 is a memo column only as the amounts contained therein have already been taken into consideration in Columns 13 through 20.)

The Life and Health Annual Statement Instructions for Note 36 (matches SSAP No. 55, paragraph 17h disclosure.)

36. Loss/Claim Adjustment Expenses

Instruction:

The financial statement shall include the following disclosures for each year full financial statements are presented. Life and annuity contracts are not subject to this disclosure requirement:

- The balance in the liabilities for unpaid loss/claim adjustment expense reserves at the beginning and end of each year presented.
- Incurred loss/claim adjustment expenses with separate disclosures of the provision for insured or covered events of the current year and increases or decreases in the provision for insured or covered events of prior years.
- Payments of loss/claim adjustment expenses with separate disclosure of payment of loss/claim adjustment expenses attributable to insured or covered events of the current year and insured or covered events of prior years.
- **Estimates of anticipated salvage and subrogation (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), deducted from the liability for unpaid claims or losses.**

Illustration:

The balance in the **liability for unpaid accident and health claim adjustment expenses** as of and_____ was $_______ and $_______, respectively.

The Company incurred $_______ and paid $_______ of **claim adjustment expenses** in the current year, of which
$_______ of the paid amount was attributable to insured or covered events of prior years. The Company did not increase or decrease the provision for insured events of prior years.

The Company took into account estimated anticipated salvage and subrogation of the liability for unpaid claims/losses and reduced such liability by $________.

The Health Annual Statement Instructions for note 31 matches SSAP No. 55, paragraph 17h disclosure.

31. Anticipated Salvage and Subrogation
Instruction:
Estimates of anticipated salvage and subrogation (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), deducted from the liability for unpaid claims or losses. Refer to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* for accounting guidance.

Illustration:
The Company took into account estimated anticipated salvage and subrogation in its determination of the liability for unpaid claims/losses and reduced such liability by $______________.

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

Staff Recommendation:
NAIC staff recommends that the Working Group move this agenda item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 55, which clarify that subrogation recoveries should be reported as a reduction of losses and/or loss adjusting expense LAE reserves, depending on the nature of the costs being recovered. In addition, updates to the disclosure in paragraph 17h are recommended. In conjunction, with the agenda item, NAIC staff should be directed to coordinate develop conforming revisions to the annual statement instructions. While NAIC staff believes the proposed clarification is consistent with the current practice of most entities, the Working Group should notify the Casualty Actuarial and Statistical (C) Task Force, the Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force of the exposure.

SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses proposed revisions

General

11. The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience. These liabilities shall not be discounted unless authorized for specific types of claims by specific SSAPs, including SSAP No. 54R and SSAP No. 65—Property and Casualty Contracts.

12. Various analytical techniques can be used to estimate the liability for IBNR claims, future development on reported losses/claims, and loss/claim adjustment expenses. These techniques generally consist of statistical analysis of historical experience and are commonly referred to as loss reserve projections. The estimation process is generally performed by line of business, grouping contracts with like characteristics and policy provisions. The decision to use a particular projection method and the results obtained from that method shall be evaluated by considering the inherent assumptions underlying the method and the appropriateness of those assumptions to the circumstances. No single projection method

is inherently better than any other in all circumstances. The results of more than one method should be considered.

13. For each line of business and for all lines of business in the aggregate, management shall record its best estimate of its liabilities for unpaid claims, unpaid losses, and loss/claim adjustment expenses. Because the ultimate settlement of claims (including IBNR for death claims and accident and health claims) is subject to future events, no single claim or loss and loss/claim adjustment expense reserve can be considered accurate with certainty. Management's analysis of the reasonableness of claim or loss and loss/claim adjustment expense reserve estimates shall include an analysis of the amount of variability in the estimate. If, for a particular line of business, management develops its estimate considering a range of claim or loss and loss/claim adjustment expense reserve estimates bounded by a high and a low estimate, management's best estimate of the liability within that range shall be recorded. The high and low ends of the range shall not correspond to an absolute best-and-worst case scenario of ultimate settlements because such estimates may be the result of unlikely assumptions. Management's range shall be realistic and therefore, shall not include the set of all possible outcomes but only those outcomes that are considered reasonable. Management shall also follow the concept of conservatism included in the Preamble when determining estimates for ~~claims~~ claim and loss and loss/claim adjustment expense reserves. However, there is not a specific requirement to include a provision for adverse deviation in claims.

14. In the rare instances when, for a particular line of business, after considering the relative probability of the points within management's estimated range, it is determined that no point within management's estimate of the range is a better estimate than any other point, the midpoint within management's estimate of the range shall be accrued. It is anticipated that using the midpoint in a range will be applicable only when there is a continuous range of possible values, and no amount within that range is any more probable than any other. For purposes of this statement, it is assumed that management can quantify the high end of the range. If management determines that the high end of the range cannot be quantified, then a range does not exist, and management's best estimate shall be accrued. This guidance is not applicable when there are several point estimates which have been determined as equally possible values, but those point estimates do not constitute a range. If there are several point estimates with equal probabilities, management should determine its best estimate of the liability.

15. If a reporting entity chooses to anticipate salvage and subrogation recoverables (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), the recoverables shall be estimated in a manner consistent with paragraphs 10-12 of this statement. Estimated salvage and subrogation recoveries (net of associated recovery expenses) shall be deducted from the liability for unpaid claims, unpaid losses, and unpaid loss/claim adjustment expenses, depending on the whether the subrogation represents a recovery of claims/losses or loss/claims adjustment expenses ~~or losses~~. If a reporting entity chooses to anticipate coordination of benefits (COB) recoverables of Individual and Group Accident and Health Contracts, the recoverables shall be estimated in a manner consistent with paragraphs 11-13 of this statement and shall be deducted from the liability for unpaid claims or losses. A separate receivable shall not be established for these recoverables. In addition, all of these recoverables are also subject to the impairment guidelines established in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5R) and an entity shall not reduce its reserves for any recoverables deemed to be impaired. Salvage and subrogation recoveries received (net of associated recovery expenses) are reported as a reduction to paid losses/claims and/or paid loss/claim adjustment expenses. Coordination of benefits (COB) recoveries received of Individual and Group Accident and Health Contracts (net of associated recovery expenses) are reported as a reduction to paid claims.

Disclosures

17. The financial statements shall include the following disclosures for each year full financial statements are presented. The disclosure requirement in paragraph 17.d. is also applicable to the interim financial statements if there is a material change from the amounts reported in the annual filing. Life and annuity contracts are not subject to this disclosure requirement.

a. The balance in the liabilities for unpaid claims and unpaid losses and loss/claim adjustment expense reserves at the beginning and end of each year presented;

b. Incurred claims, losses, and loss/claim adjustment expenses with separate disclosures of the provision for insured or covered events of the current year and increases or decreases in the provision for insured or covered events of prior years;

c. Payments of claims, losses, and loss/claim adjustment expenses with separate disclosures of payments of losses and loss/claim adjustment expenses attributable to insured or covered events of the current year and insured or covered events of prior years;

d. The reasons for the change in the provision for incurred claims, losses, and loss/claim adjustment expenses attributable to insured or covered events of prior years. The disclosure should indicate whether additional premiums or return premiums have been accrued as a result of the prior-year effects. (For Title reporting entities, "provision" refers to the known claims reserve included in Line 1 of the Liabilities page, and "prior years" refers to prior report years);

e. Information about significant changes in methodologies and assumptions used in calculating the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements for the most recent reporting period presented;

f. A summary of management's policies and methodologies for estimating the liabilities for losses and loss/claim adjustment expenses, including discussion of claims for toxic waste cleanup, asbestos-related illnesses, or other environmental remediation exposures;

g. Disclosure of the amount paid and reserved for losses and loss/claim adjustment expenses for asbestos and/or environmental claims, on a direct, assumed and net of reinsurance basis (the reserves required to be disclosed in this section shall exclude amounts relating to policies specifically written to cover asbestos and environmental exposures). Each company should report only its share of a group amount (after applying its respective pooling percentage) if the company is a member of an intercompany pooling agreement; and

h. Estimates of anticipated salvage and subrogation (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), deducted from the liability for unpaid claims, ~~or~~ losses or their associated adjusting expenses.

Status:
On August 26, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and took the following actions:

1. Exposed revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*, as illustrated above, to clarify that salvage and subrogation recoveries should be reported as a reduction of losses and/or loss adjusting expense (LAE reserves), depending on the nature of the costs being recovered. In addition, updates to the disclosure in paragraph 17.h. were exposed.

2. Directed NAIC staff to coordinate develop conforming revisions to the Annual Statement instructions.

3. Directed notification of the exposure to the following actuarial Task Forces:
   a. Casualty Actuarial and Statistical (C) Task Force,
   b. Life Actuarial (A) Task Force, and
   c. Health Actuarial (B) Task Force

Interpretation of the Statutory Accounting Principles Working Group

INT 21-02T: Extension of Ninety-Day Rule for the Impact of Hurricane Ida

INT 21-02T Dates Discussed

Email Vote to Expose Sept. 9, 2021

INT 21-02T References

SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers

INT 21-02T Issue

1. Hurricane Ida and its aftermath has resulted in tremendous loss of life and property, the extent to which is currently not known. The Federal Emergency Management Agency (FEMA) lists Louisiana, New Jersey and New York as having emergency declarations because of the hurricane and related flooding. This interpretation is intended to cover storm impacted policies in areas in which a state of emergency was declared. State regulators and insurers are taking action to provide policyholders affected by this disaster with the support and understanding that is deserved.

2. Should a 60-day extension of the 90-day rule for uncollected premiums be temporarily granted to insurers for policies in U.S. jurisdictions where a state of emergency was declared which were affected by the hurricane, its aftermath and related flooding?

INT 21-02T Discussion

3. The Working Group reached a tentative consensus for a one-time optional extension of the ninety-day rule for uncollected premium balances, bills receivable for premiums and amounts due from agents and policyholders required per SSAP No. 6, paragraph 9, as described within this paragraph.

   a. For policies in effect as of the declaration of a state of emergency by either the states, U.S. territories or federal government, as described in paragraph 1, insurers with policyholders in areas impacted by Hurricane Ida, its aftermath and the related flooding may wait 150 days (90 days per existing guidance, plus a 60-day extension), not to extend beyond Jan. 23, 2022, before nonadmitting premiums receivable from those directly impacted policyholders as required per SSAP No. 6, paragraph 9.

   b. Existing impairment analysis remains in effect for these affected policies.

4. The Working Group noted that a temporary sixty day (60) extension had previously been provided for other nationally significant disasters including *INT 20-11: Extension of Ninety-Day Rule for the Impact of 2020 Hurricanes, California Wildfires and Iowa Windstorms*, *INT 18-04: Extension of Ninety-Day Rule for the Impact of Hurricane Florence and Hurricane Michael*; *INT 17-01: Extension of Ninety-Day Rule for the Impact of Hurricane Harvey, Hurricane Irma and Hurricane Maria; INT 13-01: Extension of Ninety-Day Rule for the Impact of Hurricane/Superstorm Sandy;* and *INT 05-04: Extension of Ninety-day Rule for the Impact of Hurricane Katrina, Hurricane Rita and Hurricane Wilma.*

5. Due to the short-term nature of the applicability of this extension, which expires Jan. 23, 2022, this interpretation will be publicly posted on the Statutory Accounting Principles (E) Working Group web page. This interpretation will be automatically nullified on Jan. 24, 2022, and will be included as a nullified INT in Appendix

H – Superseded SSAPs and Nullified Interpretations in the “As of March 2022” *Accounting Practices and Procedures Manual*.

INT 21-02T Status

6. Further discussion is planned.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2021/12. November Call/4 - INT 21-02T - Hurricane Ida.docx

Attachment 5

Statutory Accounting Principles (E) Working Group
November 10, 2021 – Interim Call
Comment Letters Received

TABLE OF CONTENTS

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October 22, 2021

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: Ref #2021-15, SSAP No. 43R-Residual Tranches

Dear Mr. Bruggeman:

Interested parties ("IPs") appreciate the opportunity to comment on the Statutory Accounting Principles Working Group (the Working Group) proposal Ref #2021-15, SSAP No. 43R-Residual Tranches ("the proposal").

The proposal would require certain modifications to SSAP No. 43R to report non-rated residual tranches or interests, currently in the scope of SSAP No. 43R, on Schedule BA as Other Long-Term Invested Assets at lower of cost or market. Also proposed is that a footnote be added to further define "non-rated residual tranches or interests" as follows:

> "Reference to "non-rated residual tranches or interests" intends to capture securitization tranches, beneficial interests, interests of structured finance investments, as well as other structures captured in scope of this statement, that reflect loss layers without contractual interest or principal payments. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment's duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments."

IPs have the following comments related to the proposal:

1) IPs agree that residual tranches or interests in scope of SSAP No. 43R, which meet the definition in the proposed footnote, should be reported on Schedule BA at lower of cost or market ("LOCOM").

   Some companies already report such investments on Schedule BA and others report them on Schedule D measured at either LOCOM or amortized cost. We believe the proposed change in reporting would be cost justified as it would not be overly burdensome to insurers and would provide consistent reporting by insurers. It also would provide additional information for regulators to continue to evaluate such investments.

2) IPs believe an effective date of 12/31/2021 is achievable with regard to rating all residual tranches in the scope of SSAP No. 43R as NAIC 6. However, for various reasons noted below, IPs do not believe it would be feasible to transfer those residual tranches currently reported on Schedule D to Schedule BA for year-end 2021 reporting.

   In conversations with NAIC staff and regulators, while working on the Working Group's Bond Project (formerly known as the 43R Project), IPs have been asked if adopting the proposal effective 12/31/2021 is feasible and also if reporting such interests on Schedule BA separately depending on the underlying collateral (e.g., fixed income, equity, real estate, etc.; same categories that currently exist on Schedule BA) would be feasible beginning at year-end 2022.

   IPs believe that the 12/31/2021 reporting is not feasible as it would be operationally difficult to change processes in a timely manner prior to year-end reporting, including any vendor modifications that would be required, as well as address downstream implications such as impacts on cash flow statements and investment schedule rollforwards, etc., to ensure there are no unintended consequences related to the various statutory blanks and related processes. IPs support making such a change beginning at year-end 2022 and support the more granular reporting requested (i.e., based on underlying collateral) as it will allow the requisite amount of time to address those operational items discussed above. IPs also support allowing those companies that can address their processes prior to year-end 2021, the opportunity to transfer the residual tranches in scope from Schedule D to BA in 2021. It is important that the Working Group make companies aware that (1) the transfer of residual tranches to Schedule BA is optional for year-end 2021/quarterly 2022 and (2) if they choose to transfer the residual tranches to Schedule BA at year-end 2021, they would also be required to transfer them at year-end 2022 into the more granular categories discussed above based on underlying collateral (e.g., equities, fixed income, real estate, etc.). For those companies that decide to transfer the residual tranches in 2021, Blanks instructions would be needed well in advance of year-end to provide clarity related to the following:

   - The specific section and subsection of Schedule BA where the residual tranches and interests in scope of this proposal would be reported.
   - How the various existing columns of Schedule BA would be used for such investments. For example, Schedule BA "cost" would be used to report "amortized cost" for such investments.
   - Communicating that LOCOM would be applied to such investments and clarifying where both amortized cost and fair value would be reported on the existing Schedule BA.

3) IPs recommend certain modifications to the proposed footnote and changes to SSAP No. 43R as follows:

   - Eliminate the reference to "non-rated" in paragraphs 26a, b, and c and the proposed footnote. IPs recommend eliminating the reference to non-rated as its definition may be interpreted inconsistently by various insurers (e.g., rated by the NAIC, rated by an NRSRO, insurer-rated such as NAIC 5 or 6?). We believe the intent is to exclude from Schedule D reporting, those investments that are typically not rated in the investment markets because their characteristics are not debt-like (e.g., no contractual payments of principal and/or interest) and thus we believe the inclusion of only the criteria "no contractual payments of principal and/or interest" will capture all investments intended to be captured.

   - IPs recommend removing the term "structured finance investments" from the footnote as it is an undefined term and is not clear to IPs at to what it is intended to capture. We believe retaining the references to "securitization tranches and beneficial interests" is adequate and would be understood to include all those investments intended by the regulators to be in the scope of the proposal.

   - IPs recommend modifying the footnote to include those investments "…that reflect loss layers without contractual interest or principal payments" to those investments "…that reflect loss layers without any contractual payments, whether principal, interest, or both". This proposed change would be more complete and "all-encompassing".

   - Ensure LOCOM is clarified to be "lower of **amortized cost** or market". The use of the term "amortized cost" versus "cost" more accurately reflects the type of investment and is more aligned with the use of the term in existing SSAP No. 43R.

   The following proposal reflects IPs comments discussed above as related to the footnote:

   "Reference to "residual tranches or interests" intends to capture securitization tranches and beneficial interests as well as other structures captured in scope of this statement, that reflect loss layers without any contractual payments, whether principal, interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment's duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments."

We would be happy to discuss any of our recommendations above and appreciate the continued dialogue related to this topic and the overall Bond Project among the Working Group, NAIC Staff, Regulators, and IPs.

* * *

Thank you for considering interested parties' comments. If you have any questions in the interim, please do not hesitate to contact us.

Sincerely,

D. Keith Bell Rose Albrizio

cc: NAIC staff
Interested parties

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October 1, 2021

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: Items Exposed for Comment by the Statutory Accounting Principles Working Group on August 26, 2021 with Comments due October 1, 2021

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the exposure drafts released for comment by the NAIC Statutory Accounting Principles (E) Working Group (the Working Group). We offer the following comments:

Ref #2021-11 SSAP No. 43R

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed the following:

1. Revisions to *SSAP No. 43R—Loan-Backed and Structured Securities*, as illustrated in the proposal, to explicitly identify the SVO-Identified CTLs that are in scope of SSAP No. 43R. These revisions also propose to delete the examples of "other loan-backed and structured securities" in paragraph 27.b. Comments are requested if this deletion is perceived to remove investments from the scope of SSAP No. 43R.

2. Request for comment on the Working Group's intent to nullify INT 20-10. (This INT nullifies automatically on Oct. 1, 2021, but it is anticipated that the explicit nullification will identify the revisions adopted by the VOSTF for historical reference.)

3. Disposal of agenda item 2020-24: Accounting and Reporting of Credit Tenant Loans without statutory revisions. This was the agenda item in response to the initial VOSTF referral and is no longer applicable with the adopted Task Force edits to clarify that CTLs are mortgage loans in scope of SSAP No. 37.

Interested parties have no comment on this item.

Ref #2021-12 NAIC Accounting Practices and Procedures Manual Editorial and Maintenance Update

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed editorial revisions to the Preamble, *Appendix A-001: Investments of Reporting Entities, Appendix C Actuarial Guidelines – Appendices, Appendix C-2 Interpretations of the Emerging Actuarial Issues (E) Working Group,* and *SSAP No. 21R —Other Admitted Assets*, as illustrated in the proposal.

Interested parties have no comment on this item.

Ref #2021-13 SSAP No. 55: Salvage - Legal Recoveries

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and took the following actions:

1. Exposed revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*, as illustrated in the proposal, to clarify that salvage and subrogation recoveries should be reported as a reduction of losses and/or loss adjusting expense (LAE reserves), depending on the nature of the costs being recovered. In addition, updates to the disclosure in paragraph 17.h. were exposed.

2. Directed NAIC staff to coordinate develop conforming revisions to the Annual Statement instructions.

3. Directed notification of the exposure to the following actuarial Task Forces:
    a. Casualty Actuarial and Statistical (C) Task Force,
    b. Life Actuarial (A) Task Force, and
    c. Health Actuarial (B) Task Force

Interested parties support this proposal.

Ref #2021-14 Policy Statement Terminology Change – Substantive & Nonsubstantive

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, as illustrated in the proposal and suggested by the Financial Condition (E) Committee in their Aug. 14, 2021, referral, to alter the terminology used when discussing types of statutory accounting revisions.

After some discussion and consideration of the proposal and its impact on the implementation of new statutory accounting standards, interested parties concluded that the distinction between substantive (proposed to change to "development of new SSAPs or New SAP Concepts in an

Existing SSAPs") and non-substantive (proposed to change to "Development of SAP Clarifications") is at times confusing and that there would be more transparency in the development process if the distinction were eliminated. Instead, we recommend that all new standards be handled similarly but that the effective date for each new standard be determined by evaluating the complexity of implementation (e.g., the extent that systems changes are required) and the availability of data to insurers to implement the new standard. This determination would be made as the new standard is being completed and with feedback from industry as to the time needed to adopt the new requirements.

INT 21-02T: Extension of Ninety-Day Rule for the Impact of Hurricane Ida

The Working Group reached a tentative consensus for a one-time optional extension of the ninety-day rule for uncollected premium balances, bills receivable for premiums and amounts due from agents and policyholders required per SSAP No. 6, paragraph 9. For policies in effect as of the declaration of a state of emergency by either the states, U.S. territories or federal government, as described in paragraph 1, insurers with policyholders in areas impacted by Hurricane Ida, its aftermath and the related flooding may wait 150 days (90 days per existing guidance, plus a 60-day extension), not to extend beyond Jan. 23, 2022, before nonadmitting premiums receivable from those directly impacted policyholders as required per SSAP No. 6, paragraph 9. b. Existing impairment analysis remains in effect for these affected policies.

The Working Group noted that a temporary sixty day (60) extension had previously been provided for other nationally significant disasters including INT 20-11: Extension of Ninety-Day Rule for the Impact of 2020 Hurricanes, California Wildfires and Iowa Windstorms, INT 18-04: Extension of Ninety-Day Rule for the Impact of Hurricane Florence and Hurricane Michael; INT 17-01: Extension of Ninety-Day Rule for the Impact of Hurricane Harvey, Hurricane Irma and Hurricane Maria; INT 13-01: Extension of Ninety-Day Rule for the Impact of Hurricane/Superstorm Sandy; and INT 05-04: Extension of Ninety-day Rule for the Impact of Hurricane Katrina, Hurricane Rita and Hurricane Wilma.

This interpretation will be automatically nullified on Jan. 24, 2022 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the "As of March 2022" *NAIC Accounting Practices and Procedures Manual*.

Interested parties support this proposal.

Ref #2019-24 SSAP No. 71: Levelized Commissions

The Working Group exposed Issue Paper No. 16x: Levelized Commissions to document the historical discussion and final action adopted through the Executive Committee/Plenary.

Interested parties have no further comment on this item.

* * *

Thank you for considering interested parties' comments. If you have any questions in the interim, please do not hesitate to contact us.

Sincerely,

D. Keith Bell Rose Albrizio

cc: NAIC staff
Interested parties