NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: 3/22/21

Virtual Meeting
(in lieu of meeting at the 2021 Spring National Meeting)

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE
Tuesday, March 23, 2021
12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

Doug Slape, Chair
Trinidad Navarro, Vice Chair
Jim L. Ridling
Lori K. Wing-Heier
Peni Itula Sapini Teo
Evan G. Daniels
Alan McClain
Ricardo Lara
Andrew N. Mais
Karima M. Woods
David Altsmaier
Dean L. Cameron
Stephen W. Robertson
Doug Ommen
Vicki Schmidt
Sharon P. Clark
James J. Donelon
Eric A. Cioppa
Gary D. Anderson
Anita G. Fox
Grace Arnold
Chlora Lindley-Myers

Texas
Delaware
Alabama
Alaska
American Samoa
Arizona
Arkansas
California
Connecticut
District of Columbia
Florida
Idaho
Indiana
Iowa
Kansas
Kentucky
Louisiana
Maine
Massachusetts
Michigan
Minnesota
Missouri

Troy Downing
Bruce R. Ramge
Chris Nicolopoulos
Marlene Caride
Russell Toal
Linda A. Lacewell
Mike Causey
Jon Godfread
Judith L. French
Glen Mulready
Jessica K. Altman
Elizabeth Kelleher Dwyer
Raymond G. Farmer
Larry D. Deiter
Carter Lawrence
Jonathan T. Pike
Michael S. Pieciak
Scott A. White
Mike Kreidler
James A. Dodrill
Mark Afable
Jeff Rude

Montana
Nebraska
New Hampshire
New Jersey
New Mexico
New York
North Carolina
North Dakota
Ohio
Oklahoma
Pennsylvania
Rhode Island
South Carolina
South Dakota
Tennessee
Utah
Vermont
Virginia
Washington
West Virginia
Wisconsin
Wyoming

NAIC Support Staff: Robin Marcotte

AGENDA

1. Consider Adoption of its 2020 Fall National Meeting Minutes—Jamie Walker (TX) Attachment One

2. Consider Adoption of its Working Group Reports—Jamie Walker (TX)
   b. Blanks (E) Working Group—Jake Garn (UT) Attachment Three
   c. Levelized Commission Memo Attachment Four

3. Discuss Any Other Matters Brought Before the Task Force—Jamie Walker (TX)

4. Adjournment

W:\National Meetings\2021\Spring\TF\App\materials\3-23-21\0 - APPTF 3.23.2021 Agenda.docx

© 2021 National Association of Insurance Commissioners
The Accounting Practices and Procedures (E) Task Force met Nov. 19, 2020. The following Task Force members participated: Texas, Chair, represented by Jamie Walker (TX); Trinidad Navarro, Vice Chair, represented by Rylynn Brown (DE); Lori K. Wing-Heier represented by David Phifer (AK); Jim L. Ridling represented by Richard Ford (AL); Alan McClain represented by Mel Anderson (AR); Ricardo Lara represented by Kim Hudson (CA); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by N Kevin Brown (DC); David Altmairer represented by Virginia Christy (FL); Doug Ommen represented by Daniel Mathis and Kevin Clark (IA); Dean L. Cameron represented by Eric Fletcher (ID); Stephen W. Robertson and Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Bill Clark (KY); James J. Donelon represented by Caroline Fletcher and Stewart Guerin (LA); Gary Anderson represented by John Turchi (MA); Eric A. Cioppa represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver (MI); Grace Arnold represented by Kathleen Orth (MN); Chloria Lindley-Myers represented by Shannon Schmoeger (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Bruce R. Ramge represented by Lindsay Crawford (NE); Chris Nicopoloupos represented by Patricia Gosselin and Doug Bartlett (NH); Marlene Caride represented by Diana Sherman (NJ); Russell Toal represented by Leatrice Geckler (NM); Tynesia Dorsey represented by Dale Bruggeman (OH); Glen Mulready represented by Andrew Schallhorn (OK); Jessica K. Altman represented by Melissa Greiner (PA); Elizabeth Kelleher Dwyer represented by Jack Broccoli (RI); Larry D. Deiter represented by Jim Mehlhaff (SD); Carter Lawrence represented by Trey Hancock (TN); Tanji J. Northrup represented by Jake Garn (UT); Scott A. White represented by Doug Stolte and David Smith (VA); Michael S. Pieciak represented by Karen Ducharme (VT); Mike Kreidler represented by Steve Drutz (WA); Mark A. Fable represented by Amy Malm (WI); James A. Dodrill represented by Jamie Taylor (WV); and Jeff Rude represented by Linda Johnson (WY).

1. **Adopted its Summer National Meeting Minutes**

Ms. Walker directed the members to the Task Force’s 2020 Summer National Meeting minutes. Ms. Obusek made a motion, seconded by Mr. Hudson, to adopt the Task Force’s Aug. 3 minutes (see NAIC Proceedings – Summer 2020, Accounting Practices and Procedures (E) Task Force). The motion passed unanimously.


Mr. Bruggeman stated that the Working Group adopted the following nonsubstantive revisions to statutory accounting guidance:

a. **Statement of Statutory Accounting Principles (SSAP) No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments**: Revisions require disclosure of cash equivalents that remain on the same reporting schedule for more than one consecutive annual reporting period and clarify that the disclosure is satisfied through the use of the code on the investment schedules. (Ref #2020-20)

b. **SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements and SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities**: Revisions allow leasehold improvements to have lives that match the associated lease term, which agrees with U.S. generally accepted accounting principles (GAAP) in Accounting Standards Codification (ASC) Topic 842 – Leases. (Ref #2020-23)

c. **SSAP No. 37—Mortgage Loans**: Revisions clarify a participant’s required financial rights in a mortgage loan participation agreement, which are reported as mortgage loans. (Ref #2020-19)

d. **SSAP No. 43R—Loan-Backed and Structured Securities**: Revisions update the financial modeling guidance/mapping instructions for residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) to ensure consistency with guidance recently adopted in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual). (Ref #2020-21)
e. SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities:

1. Revisions update guidance, descriptive language and the delivery process of completed subsidiary, controlled and affiliated (SCA) reviews for both domestic regulators and financial statement filers. The change in delivery of SCA review documents will occur on Jan. 1, 2021. (Ref #2020-17)

2. Revisions delete a previously superseded wording indicating that guarantees or commitments result in a negative equity valuation of the SCA and clarify language in Exhibit C, question 7. The Working Group directed a separate agenda item to review the provisions of paragraph 9, which requires limited statutory accounting adjustments, and whether certain provisions should continue to apply to paragraph 8.b.iv entities. (Ref #2020-18)

f. Adopted the following editorial revisions to statutory accounting: (Ref #2020-25EP)

1. SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets: Removed redundant paragraph references.

2. SSAP No. 62R—Property and Casualty Reinsurance: Added a table that lists the questions addressed in Exhibit A – Implementation Questions and Answers.

Mr. Bruggeman stated that the Working Group exposed one substantive agenda item to solicit comments from state insurance regulators and industry on establishing a new SSAP for the accounting and reporting guidance for derivatives hedging the growth in interest for fixed indexed products. Two general options have been presented, and the Working Group is open for additional commentary and suggestions. A notification of the exposure will be sent to the Life Actuarial (A) Task Force. (Ref #2020-36)

Mr. Bruggeman stated that the Working Group exposed the following nonsubstantive revisions to statutory accounting guidance:

a. SSAP No. 5R, SSAP No. 72—Surplus and Quasi-Reorganizations, and SSAP No. 86—Derivatives: Revisions reject Accounting Standards Update (ASU) 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity, as this ASU primarily addresses various convertible debt valuation models along with bifurcating embedded derivative components, which are concepts not supported under statutory accounting. (Ref #2020-41)

b. SSAP No. 25—Affiliates and Other Related Parties: Revisions clarify the identification of related parties, with changes from the prior exposure to reflect discussions with interested parties. The revisions also include a new disclosure recommended by the Group Solvency Issues (E) Working Group. (Ref #2019-34)

c. SSAP No. 26R—Bonds:

1. Revisions clarify that perpetual bonds with a call feature shall apply the yield-to-worst concept with reporting at amortized cost. Fair value is required for all other perpetual bonds. (Ref #2020-22)

2. Revisions expand the called-bond disclosures to include bonds terminated through a tender offer. (Ref #2020-32)

d. SSAP No. 32R—Preferred Stock and SSAP No. 86: Revisions capture publicly traded preferred stock warrants as preferred stock, and not derivatives, with reporting at fair value. (Ref #2020-33)

e. SSAP No. 43R: Revisions incorporate minor scope modifications to reflect recent changes to the Freddie Mac Structured Agency Credit Risk (STACR) and Fannie Mae Connecticut Avenue Securities (CAS) programs, which allow credit risk transfer securities from these programs to remain in scope of SSAP No. 43R when issued through a Real Estate Mortgage Investment Conduit (REMIC) structure. (Ref #2020-34)

f. SSAP No. 56—Separate Accounts:
Draft Pending Adoption

1. Exposed an agenda item to solicit comments regarding the degree of product granularity that should be captured in Separate Account general interrogatory 1.01. With exposure, information was requested about when aggregate product reporting should be permitted. (Ref #2020-37)

2. Exposed an agenda item to solicit comments regarding possible modifications to specifically address pension risk transfers (PRTs), including separate identification transactions, guarantees, reserve assumptions, etc., within existing disclosure requirements or the addition of new general interrogatories and new schedules/exhibits to distinguish specific product detail previously reported in an aggregated format (Ref #2020-38)

g. SSAP No. 71—Policy Acquisition Costs and Commissions: Exposed prior nonsubstantive revisions with minor clarifications, noting that the revisions apply to contracts in effect on the date of adoption. Revisions distinguish traditional persistency commission from a funding agreement. The Working Group directed NAIC staff to draft an issue paper documenting the discussion. (Ref #2019-24)

h. SSAP No. 97: Exposed agenda item with a request for comments on the extent to which situations exist that hinder the admittance of paragraph 8.b.iii. entities (U.S. and foreign noninsurance U.S. GAAP basis SCAs) due to the inability to quantify the departure from of U.S. GAAP. (Ref #2020-35)

i. Appendix D—Nonapplicable GAAP Pronouncements: Revisions reject ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities as not applicable to statutory accounting. (Ref #2020-42)


k. Preamble: Revisions clarify that while any state in which a company is licensed can issue prescribed practices, the prescribed practices directed by the domiciliary state shall be reflected in the financial statements filed with the NAIC, and they are the financial statements subject to the independent auditor requirements. (Ref #2020-40)

Mr. Bruggeman stated that the Working Group directed the following actions:

a. Directed year-end reporting guidance to clarify the inclusion of “conforming” credit tenant loans (CTLs) in scope of SSAP No. 43R and the reporting of nonconforming CTLs that do not have NAIC Securities Valuation Office (SVO) assigned designations on Schedule BA. (This guidance provides a limited-time provision to permit nonconforming CTLs to be reported on Schedule D-1 if they have SVO-assigned NAIC designations.) The Working Group also directed a referral to the SVO and the Capital Markets Bureau requesting comments on whether it is appropriate to change the existing 5% residual risk threshold in determining whether a CTL is conforming. (Ref #2020-24)

b. SSAP No. 53—Property Casualty Contracts—Premiums, SSAP No. 54R—Individual and Group Accident and Health Contracts, and SSAP No. 66—Retrospectively Rated Contracts: The Working Group directed NAIC staff to draft revisions for more explicit guidance on return of premium and other premium adjustments for review. (Ref #2020-30)

Mr. Bruggeman stated that the Working Group evaluated for possible extension the following INTs, previously adopted in response to COVID-19. However, it did not extend them beyond their current effective dates:

a. The following INTs were effective through third-quarter 2020:


2. INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19.

3. INT 20-05: Investment Income Due and Accrued.

b. The following INTs are effective for the 60 days following the termination of the National Emergency or Dec. 31, whichever occurs first (and therefore, expire on Dec. 31, 2020):
1. INT 20-03: Troubled Debt Restructuring Due to COVID-19.

Mr. Bruggeman stated that the Working Group received updates on the following items:

a. Ref #2020-21: The Working Group previously exposed the Iowa Insurance Proposal to define what should be captured in scope of Schedule D, Part 1: Long-Term Bonds for a public comment period ending Dec. 4. NAIC staff, industry and key state insurance regulators have been working to discuss the definition throughout the exposure period.

b. Deferred discussion of the following agenda items for a subsequent meeting. While these items remain deferred, NAIC staff have proposed a project to holistically review the business combinations (and goodwill) guidance in SSAP No. 68—Business Combinations and Goodwill. If approved, the outstanding items in these agenda items will likely be addressed in the project:

c. Ref #2019-49: This agenda item addresses a referral from the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries (Academy), which noted diversity in reporting regarding companies applying the retroactive reinsurance exception, which allows certain contracts to be reported prospectively. NAIC staff have held preliminary discussion with members of the Casualty Actuarial and Statistical (C) Task Force.

d. Received an update on current U.S. GAAP Exposures/Invitations to Comment, noting that no comments by the Working Group are planned during the exposure periods.

Mr. Bruggeman stated that the comment deadline for all agenda items exposed during the Nov. 12 meeting is Jan. 11, 2021. INT 20-10 and agenda item 2020-21 both have Dec. 4, 2020, comment deadlines. Mr. Bruggeman noted that the previously posted overview agenda for the Nov. 12 meeting had minor updates to three of the tracking numbers from Ref #2020-XX to 2019-XX to correctly match the agenda items.

Mr. Bruggeman made a motion, seconded by Ms. Weaver, to adopt the Working Group’s report (Attachment One). The motion passed unanimously.


Mr. Garn provided the Aug. 27 report of the Blanks (E) Working Group. He stated that the Working Group adopted its May 28 minutes.

Mr. Garn stated that the Working Group adopted its editorial listing and the following five proposals:

a. 2020-24BWG Modified – Remove actuarial filing questions 29, 30, 31 and 32 from the Supplemental Exhibits and Schedules Interrogatories, and remove the related instructions.

b. 2020-25BWG – Add a new Column 5 to the annual and quarterly health blank for Schedule T with instructions to specifically capture the Children’s Health Insurance Program (CHIP) premium. Existing columns after the new Column 5 will be renumbered.

c. 2020-26BWG Modified – Add a new Column 5 to Schedule DB, Part D, Section 1, and renumber the remaining columns. Add instruction for the new Column 5, add the column reference to Column 7, and adjust other column references in crosschecks. Correct column references for this schedule on the Liability Page, Asset Page and Schedule DB Verification. Modify instruction language for the disclosure Note 8A(8). (SAPWG Ref #2019-38)

d. 2020-27BWG Modified – Add a new category line to Schedule E, Part 2 for Qualified Cash Pools Under SSAP No. 2R (8799999), and renumber the remaining category lines. Add a new disclosure 5R to the Notes to Financial Statements. The new disclosure will be data captured. (SAPWG Ref #2019-42)
Draft Pending Adoption

e. 2020-22BWG Modified – Modify the instructions and illustration for Note 3A – Business Combinations and Goodwill, Statutory Purchase Method and a new Note 3E for “Subcomponents and Calculations of Adjusted Surplus and Total Admitted Goodwill” with instructions and illustrations to be data captured. Modify the blank and instructions for Schedule D, Part 6, Section 1 and Section 2. (SAPWG Ref #2020-03)

Mr. Garn stated that the Working Group deferred the proposal 2020-02BWG Modified – Modify the instructions and illustration for Note 10L to reflect the disclosure changes for SSAP No. 97 being adopted by the Statutory Accounting Principles (E) Working Group.

Mr. Garn made a motion, seconded by Mr. Hudson, to adopt the report of the Blanks (E)Working Group (Attachment Two). The motion passed unanimously.

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.

w:\national meetings\2020\fall\tf\app\minutes\apptf 11-19-20 minutestpr.docx
Virtual Meeting
(in lieu of meeting at the 2021 Spring National Meeting)

STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP
Monday, March 15, 2021
3:00 – 5:00 p.m. ET / 2:00 – 4:00 p.m. CT / 1:00 – 3:00 p.m. MT / 12:00 – 2:00 p.m. PT

Meeting Summary Report

The Statutory Accounting Principles (E) Working Group met March 15, 2021. During this meeting, the Working Group:


2. Adopted the following nonsubstantive revisions to statutory accounting guidance:
   a. Statement of Statutory Accounting Principles (SSAP) No. 5R—Liabilities, Contingencies and Impairments of Assets, SSAP No. 72—Surplus and Quasi-Reorganizations, and SSAP No. 86—Derivatives: Revisions reject Accounting Standards Update (ASU) 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity for statutory accounting. (Ref #2020-41)
   b. SSAP No. 25—Affiliates and Other Related Parties: Revisions clarify that an ownership greater than 10% in a reporting entity results in a related party designation, regardless of any disclaimer of control or affiliation. Additionally, the agenda item requires disclosure of such instances and identification of an insurer’s ultimate controlling party, as requested by the Group Solvency Issues (E) Working Group. (Ref #2019-34)
   c. SSAP No. 26R—Bonds:
      1. Revisions clarify that perpetual bonds are within the scope of SSAP No. 26R, and they are subject to the yield-to-worst concept. Additionally, perpetual bonds that possess a future call date will retain bond accounting—i.e., accounted for at amortized cost—however, if a perpetual bond does not possess a future call date, fair value accounting is required regardless of NAIC designation. (Ref #2020-22)
      2. Revisions expand the current called bond disclosures to also include bonds terminated early through a tender offer. (Ref #2020-32)
   d. SSAP No. 32R—Preferred Stock and SSAP No. 86: Revisions direct that publicly traded preferred stock warrants are in the scope of SSAP No. 32R, and they shall be reported at fair value. (Ref #2020-33)
   e. SSAP No. 43R—Loan-Backed and Structured Securities: Revisions incorporate minor scope modifications to reflect recent changes to the Federal Home Loan Mortgage Corporation (Freddie Mac) Structured Agency Credit Risk (STACR) and Federal National Mortgage Association (Fannie Mae) Connecticut Avenue Securities (CAS) programs, which allow credit risk transfer securities
from these programs to remain in the scope of SSAP No. 43R when issued through a real estate mortgage investment conduit (REMIC) structure. (Ref #2020-34)

f. **SSAP No. 71—Policy Acquisition Costs and Commissions:** Revisions clarify the guidance in SSAP No. 71 regarding levelized commissions with a Dec. 31, 2021, effective date. The Working Group affirmed the nonsubstantive classification of these revisions as consistent with the original intent of SSAP No. 71. In addition, the Working Group exposed a new annual statement general interrogatory to identify the use of a third party for the payment of commission expenses, which will be concurrently exposed with the Blanks (E) Working Group. (Ref #2019-24)

g. **Appendix D—Nonapplicable GAAP Pronouncements:** Revisions reject ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets as not applicable for statutory accounting. (Ref #2020-42)

h. **Appendix F—Policy Statements:** Revisions to the NAIC Policy Statement on Maintenance of Statutory Accounting Principles clarify the existing process regarding the Working Group’s issuance and adoption of accounting interpretations. (Ref #2020-39)

i. **Preamble:** Revisions clarify that while any state in which a company is licensed can issue prescribed practices, the prescribed practices directed by the domiciliary state: 1) shall be reflected in the financial statements filed with the NAIC; and 2) are the financial statements subject to independent audit requirements. (Ref #2020-40)

3. Exposed the following nonsubstantive revisions to statutory accounting guidance:

a. **SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments:** Exposed the interpretative guidance provided by Interpretation (INT) 21-01T: Statutory Accounting Treatment for Cryptocurrencies, which clarifies that cryptocurrencies do not meet the definition of cash in SSAP No. 2R, and they are nonadmitted assets for statutory accounting. Requested comments on the level of interest and ownership of cryptocurrencies. (Ref #2021-05)

b. **SSAP No. 26R:** Revisions reject ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs for statutory accounting. (Ref #2021-02)

c. **SSAP No. 47—Uninsured Plans:** Revisions reject ASU 2021-02, Franchisors – Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient in SSAP No. 47. (Ref #2021-08)

d. **SSAP No. 86:** Interpretative revisions expose a temporary (optional) expedient and exception guidance for ASU 2021-01, Reference Rate Reform (Topic 848): Scope with an expiration date of Dec. 31, 2022. The optional expedients would expand the current exceptions provided by INT 20-01: ASU 2020-04 – Reference Rate Reform. The exceptions allow for the continuation of the existing hedge relationship and thus not requiring hedge dedesignation for derivative instruments affected by changes to interest/reference rates due to reference rate reform (regardless of whether they reference the London Interbank Offered Rate (LIBOR) or another rate that is expected to be discontinued). The exception in INT 20-01 would apply for affected derivatives used for discounting, margining, or contract price alignment. (Ref #2021-01)

e. **SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities:** Exposed this agenda item with the intent to dispose without statutory edits. NAIC staff note that the long-standing, required statutory adjustments to SSAP No. 97, paragraph 8.b.iv. – Foreign Insurance SCA Entities
could result in negative equity valuation, as assets held in a foreign subsidiary should not be valued
in a more favorable manner than had they been held directly by the insurer. Industry comments
are requested regarding detailed instances of negative value subsidiary, controlled and affiliated
entities (SCAs). (Ref #2021-04)

f. SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities:
Revisions propose data-captured templates for existing disclosures in SSAP No. 103R, which are
currently only completed in narrative form. Data-capturing of such items will permit state
insurance regulators to submit system inquires to determine the extent to which reporting entities
have transferred (sold), but still retain, a material participation with said assets. A blanks proposal
will be concurrently exposed with the Working Group’s exposure. (Ref #2021-03)

g. SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act: Revisions include state
Affordable Care Act (ACA) reinsurance programs, which are using Section 1332 waivers in the
scope of SSAP No. 107. The revisions continue to follow the hybrid accounting approach for the
state ACA programs, as they operate in a similar manner. (Ref #2021-09)

h. SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees: Re-exposed this agenda item
to provide additional time for interested parties to develop a proposal for establishing accounting
and reporting guidance for derivatives hedging the growth in interest for fixed indexed products.
(Ref #2020-36)

i. Appendix D: Revisions reject ASU 2020-11, Financial Services—Insurance (Topic 944): Effective Date
and Early Application for statutory accounting. This ASU was issued to address the effective dates
of ASU 2019-09, Financial Services – Insurance (Topic 944): Effective Date and ASU 2018-12,
Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-
Duration Contracts, both of which were previously rejected by the Working Group. (Ref #2021-07)

j. Blanks:

1. Re-exposed this agenda item for a concurrent exposure with the Blanks (E) Working Group of
blanks agenda item 2021-03BWG to modify the current General Interrogatory instructions and
require that a distinct disaggregated product identifier be used for each product represented.
The disaggregation will require that each separate account product filing or policy form be
separately identified. The instructions will also indicate that companies may eliminate
proprietary information; however, the elimination will still require the use of a unique
reporting identifier. (Ref #2020-37)

2. Re-exposed this agenda item for a concurrent exposure with the Blanks (E) Working Group.
The Working Group is sponsoring blanks agenda item 2021-03BWG to clarify reporting by each
separate product filing or policy form and add product identifiers, specifically for Pension Risk
Transfer (PRT) and Registered Index-Linked Annuity (RILA) transactions in the Separate
Account General Interrogatories. (Ref #2020-38)

4. Exposed the following editorial revisions (Ref #2021-06EP):

a. SSAP No. 53—Property Casualty Contracts—Premuims: Revisions retitle to SSAP No. 53—Property
and Casualty Contracts – Premiums.

b. SSAP No. 97: Revisions correct grammatical errors in paragraph 54.
c. SSAP Glossary: Revisions remove the footnote in the Glossary title and replace it as an opening paragraph with updated verbiage.

5. Disposed the following without revisions to statutory accounting guidance:

a. Agenda item 2020-35: SSAP No. 97 – Audit Opinions was disposed without statutory revisions, as the issue of nonadmittance due to the inability to quantify a departure from U.S. generally accepted accounting principles (GAAP) was not deemed prevalent. (Ref #2020-35)

6. Received an update on the following projects and referrals:

a. Received an update that NAIC staff, industry, and key state insurance regulators have made significant progress on agenda item 2019-21: SSAP No. 43R – Investment Classification Project. While discussions remain ongoing, it is anticipated that a public exposure will occur via an interim call prior to the Summer National Meeting. The exposure will include additional principle concepts on which investments are eligible for reporting on Schedule D as a bond.

b. Received an update that INT 19-02: Freddie Mac Single Security Initiative remains in full effect. The Freddie Mac Single Security Initiative remains an ongoing program, and it does not appear to be subject to termination in the foreseeable future.

c. Received an update on agenda item 2019-49: Retroactive Reinsurance Exception. This agenda item addresses a referral from the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries (Academy), which noted diversity in reporting regarding companies applying the retroactive reinsurance exception, which allows certain contracts to be reported prospectively. NAIC staff have held preliminary discussion with Casualty Actuarial and Statistical (C) Task Force members, with a preliminary recommendation that the premium and losses transferred under such transactions should be allocated to the prior Schedule P calendar year premiums and the losses allocated to the prior accident year incurred losses.

d. Received an update on the reporting and extinguishment of loans received from the Paycheck Protection Program (PPP). For statutory accounting, the authoritative guidance in SSAP No. 15—Debt and Holding Company Obligations paragraph 11 provides that debt is recognized until extinguished, including formally being forgiven. In addition, per SSAP No. 15, paragraph 25 gains on termination of debt are recognized as capital gains.

e. Received an update on the Valuation of Securities (E) Task Force discussion regarding revisions to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) as coordination regarding the revisions to SSAP No. 105R—Working Capital Finance Investments adopted by the Working Group in May 2020 (agenda item 2019-25). At its Nov. 18, 2020, meeting, the Task Force directed a referral to the Working Group, which is still pending. NAIC staff anticipate addressing this referral when received.

f. Received an update on current U.S. GAAP Exposures/Invitations to Comment, noting that no comments by the Working Group are planned during the exposure periods.

7. The public comment period for all exposed agenda items ends April 30.
Virtual Meeting
(in lieu of meeting at the 2021 Spring National Meeting)

BLANKS (E) WORKING GROUP
Tuesday, March 16, 2021
12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

Meeting Summary Report

The Blanks (E) Working Group met March 16, 2021. During this meeting, the Working Group:

1. Adopted its Dec. 16, 2020, minutes, which included the following action:
   a. Adopted four blanks proposals: 1) 2020-28BWG – remove Note 22; 2) 2020-29BWG – remove a line category from the investment schedules; 3) 2020-30BWG – move an interrogatory question from the annual blank to the quarterly blank; and 4) 2020-31BWG – changes to the Life, Health and Annuity Guaranty Association Model Act Assessment Base Reconciliation Exhibits.
   b. Exposed seven proposals for a 60-day public comment period ending Feb. 16.
   c. Adopted its editorial listings.

2. Adopted the following proposals:
   a. 2020-32BWG – Add a new Health Care Receivables Supplement to the Life\Fraternal Annual Statement that adds Exhibits 3 and 3A from the Health Annual Statement to the Life\Fraternal annual filings. Add a guidance document reference to Exhibit 3A of the Health Annual Statement.
   b. 2020-33BWG – Modify Annual Statement Lines (ASLs) used on Underwriting and Investment (U&I) Exhibits, State Page and Insurance Expense Exhibit (IEE). Change Health ASL categories used in Property to be consistent with other statement types. Update ASL references used in crosschecks. Update definitions used in the appendix for the Health ASLs.
   c. 2020-34BWG – Add definitions for the Occupational Accident, Fiduciary Liability, Premises and Operations (OL&T and M&C), Professional Errors and Omissions Liability, Kidnap & Ransom Liability and Tuition Reimbursement Plans products to the appropriate Line of Business in the appendix.
   d. 2020-35BWG – Expand the number of characters used from seven to 10 in the investment line categories for Schedules D, DA, DL and E excluding Schedule D, Part 6 (Sections 1 and 2) and Schedule E (Part 1 and 3). Add line categories for Unaffiliated Certificates of Deposit and Exchange Traded Funds. Split the line categories for Mutual Funds, Investment Unit Trusts and Closed-End Funds into lines indicating if the fund has been assigned a designation by the Securities Valuation Office (SVO) or not. Make changes to Summary Investment Schedule, Summary by Country and Schedule D, Part 1A (Sections 1 and 2) to reflect the additional line categories.
   e. 2020-36BWG – Modify the General Schedules Investment Instructions and Schedule DB General Instructions to reflect treatment of publicly traded stock warrants as being in the scope of SSAP No. 30R—Unaffiliated Common Stock or SSAP No. 32R—Preferred Stock and reporting as common and preferred stock (SAPWG 2020-33).
   f. 2020-37BWG – Add a new Schedule Y, Part 3 to capture all entities with ownership greater than 10%, the ultimate controlling parties of those owners and other entities that the ultimate controlling party controls (SAPWG 2020-34).
   g. 2020-38BWG – Make changes to the Accident and Health Policy Experience Exhibit by adding new columns, removing lines distinguishing with and without contract reserves, add some new product lines, eliminate summary tables, change the date that the exhibit is due and have it reported by state.
3. Adopted its editorial listing.

4. Exposed five new proposals for a six-week comment period ending April 27.

5. Received a memorandum from the Valuation of Securities (E) Task Force regarding the addition of two new residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) administrative codes.
To: Accounting Practices and Procedures (E) Task Force
From: Dale Bruggeman
Date: March 19, 2021
Re: Agenda item 2019-24: Levelized and Persistency Commission

This memorandum is to provide an overview of the key points of the levelized commission agenda item 2019-24, which affects SSAP No. 71—Policy Acquisition Costs. The Statutory Accounting Principles (E) Working Group began discussion in August 2019 and on March 15, 2021, adopted revisions which are effective Dec. 31, 2021. The Working Group vote was 13 states in favor and one state opposed.

- **Acquisition Costs**: Acquisition costs are expenses incurred in the acquisition of new and renewal insurance contracts. These are costs that vary with and are primarily related to the acquisition of insurance contracts (e.g., agent and broker commissions, certain underwriting and policy issue costs, and medical and inspection fees). It is a foundational concept for statutory accounting principles (SAP) that acquisition costs including commissions are expensed as incurred. This is because incurred costs are not available to pay policyholder claims. Both U.S. generally accepted accounting principles (GAAP) and SAP would calculate acquisition costs in a similar manner. GAAP treatment capitalizes acquisition costs and expends them over time to match revenue and expenses. This is one of the major financial reporting differences between SAP and GAAP. These differences are intentional because SAP is measuring the ability to pay policyholder claims using the foundational principles of conservatism, consistency and recognition. GAAP, on the other hand, is focused on matching revenue to expenses.

- **Funding Agreement**: A funding agreement is using a third-party to pay commission costs on the insurer’s behalf, with the insurer repaying the third-party over time plus interest. To ensure consistent and conservative treatment, and appropriate recognition, SSAP No. 71 requires that the full amount of the funding agreement liability be recognized upfront by the insurer plus interest and fees owed to date. This is because the substance of the agreement is a LOAN. That is, the third-party is paying an insurer’s acquisition commission obligation and accepting repayment over time (e.g., over 3-8 years).

- **Persistency Commission Versus Loan with a Contingency Element**: A normal persistency commission is one in which additional commission is earned over time, when a policy is renewed or remains in force. A distinct difference is that persistency commission occurs subsequent to an initial sales commission. The triggering event is the continuation (or renewal) of a policy. An additional amount is owed if the policy persists overtime. A persistency commission is typically a much smaller payment than initial sales commission. For example, a small percentage if the policy is in force in years 2-10.

  Note: Although traditional persistency commission is not required to be recognized before the triggering event (e.g., renewal), earlier comments from industry noted that they could be inadvertently scoped in with the initially exposed revisions. The adopted edits addressed this concern and are clear that the recognition of commission is based on the triggering event, which is the policy action, such as initial issuance or renewal.

The practice under dispute represents initial sales commission that is not being recognized by a limited number of insurers. With these designs, the insurer has an agreement to reimburse a third-party in the future (who has paid the commission cost to the agent on the insurer’s behalf) plus interest and fees. The third-party agreement notes that the insurer does not have to pay the future installments if the policy
lapses. *(The impacted insurers have noted that this practice inserts a “persistence” element into the initial sales commission already incurred. This is actually a LOAN with a contingency element.)* Note: Insurers are required to recognize the full initial commission cost when a policy is issued. If a policy is cancelled, at that time, an insurer can derecognize the liability to repay the third party.

**Disputed practice:** Those few insurers that are not recognizing the full liability under the funding agreement (to repay the parties who are paying acquisition costs on their behalf) are not following the long-standing guidance in SSAP No. 71. These limited companies are only recognizing a fraction of the acquisition commission expense, which results in misleading financial statements, and presents a better financial position than actually exists (as the company has unrecorded liabilities for commissions already paid on their behalf). SSAP No. 71 requires recognition of the full liability amount of such an agreement, even if repayment is not guaranteed. The small number of insurers have asserted that their reporting is a decades-long practice. However the SSAP No. 71 guidance that requires full accrual of the liability was adopted in 1998 and is based on even earlier statutory accounting guidance which notes that, “The accounting treatment for certain transactions, characterized as levelized commissions, which results in enhancement of surplus, has been determined to be inappropriate for statutory reporting.” The Working Group discussions identified that not recognizing the full liability appears to have been practiced by only a small minority of companies, which supports that the majority of industry is reporting correctly.

- **Lapse** - Lapse risk is a risk identified in Model 791 Life and Health Reinsurance, as a significant insurance risk therefore it cannot be transferred to a non-insurance entity. However, some employing the disputed practice have tried to assert that it has been transferred to the funding agent.

- **Overview of Edits:** Revisions clarify that an insurance entity cannot use third-party structures to recharacterize and delay recognition of liabilities for initial sales commission owed, regardless of how a third-party arrangement is structured with regards to the timing of the payment from the insurers. This guidance clarifies that it is the writing of the insurance contract that obligates the insurer and recognition of expense shall occur consistently among insurers. SSAP No. 71 does not require advanced recognition for expected renewals or normal persistency metrics. When an insurance policy is issued, renewed or when metrics are met that require additional commission, then SSAP No. 71 consistently requires expense recognition for all insurers.

- **Substantive / Nonsubstantive** - The determination of a change as substantive or nonsubstantive is based on whether the edits reflect original intent (nonsubstantive) or incorporates new accounting concepts (substantive). Throughout the discussion process, it has been reiterated that the edits simply clarify the original intent of SSAP No. 71. As such, the change was classified as nonsubstantive. The impact to companies or the number of companies that have incorrectly applied accounting guidance is not a factor in determining whether a clarifying edit is substantive or nonsubstantive. However, as the incorrect application only seems to involve a limited number of linked-companies, with other entities following the original intent of SSAP No. 71, this would seem to support that the changes are nonsubstantive and consistent with original intent.

- **Correction of Error / Change in Accounting Principle:** An earlier comment from an impacted company identified that there is a process concern as the edits to SSAP No. 71 are classified as a change in
accounting principle and not a correction of error. *(Under SSAP No. 3—Accounting Changes and Correction of Errors, a mistake in the application of accounting principles is a correction of an error.* The edits proposed in July 2020 were to classify changes required from misapplication of SSAP No. 71 as a correction of error. However, in response to comments, the Working Group agreed to designate the impact as a change in accounting principle. This provision was provided to assist companies in reflecting the change. Both processes require the impact to be recognized to unassigned funds (surplus). If reported as a correction of an error, then an entity may be subject to filing amended financial statements for periods in which the error was reflected. As a change in accounting principle, then the entity calculates the change as a cumulative effect to the Jan. 1 balance in the current year financials.

- **Use of Funding Agreements:** SSAP No. 71 does not prohibit the use of funding agreements or the use of third parties to pay commission expense to selling agents. SSAP No. 71 simply requires consistent recognition of commission expense based on policy issuance or renewal. The involvement of third parties and funding agreements to front commission owed to selling agents is not a free service. These third-parties require fees and interest from these financing arrangements; which presumably exceeds the costs of commission only. The long-standing guidance in SSAP No. 71 requires recognition of the full amount of unpaid principal and interest accrued to date in these arrangements. One comment raised during the discussion was that the clarified guidance would hurt policyholders. This comment was never fully substantiated, but it was noted that failing to report expenses in line with SSAP No. 71 would result with inappropriate financial positions – which could hurt policyholders. Additionally, it was noted that if the process to defer expense recognition was sanctioned, then all insurers would have to engage in these arrangements to prevent competitive disadvantages with reporting.

- **Payments to the Direct Agent:** Some of the comments received from the impacted companies (or their representatives) have tried to indicate that the timing (and how) the initial sales commission is paid to the direct selling agent by the third-party should not impact the recognition of commission expense by the insurer. These comments were made because it has been highlighted that in the known situations, the third-party agents have already paid the direct selling agent the owed commission. Although the third-party payment to the direct selling agent substantiates that a commission was owed from policy issuance, the payment to the direct agent is not the triggering event. (Meaning, even if a third-party was to revise their agreements with direct agents to delay payment, this will not change that the insurer owes commission expense from policy issuance. The initial sales commission is triggered by policy issuance.)

- **Consistent Application Across Companies:** SSAP No. 71 is a “common area” SSAP and applies to all entities regardless of their line of business or product offerings. Some comments made to regulators have implied that certain large companies are permitted processes that are not in line with SSAP No. 71. It is speculated that these comments are trying to compare commission expenses from renewals (which are not required until policy renewal occurs) to the process engaged by these companies in which they have not recognized commission expense from the initial issuance of policies. This goes back to these impacted companies mischaracterizing these financing arrangements as “persistency” commission. These timing arrangements do not alter the requirement to recognize commission expense with the issuance of a policy. Because many of these funding agreements were mischaracterized, it was noted that the disputed practice is difficult to identify on financial examinations and audits. One Working Group member shared that they had dealt with an issue like this previously when $16 million of off-balance sheet commission liabilities was identified after a third party funding agent applied to the liquidator for reimbursement.
• **Impacted Companies:** Throughout the discussion, key industry representatives continued to highlight that the impacted companies were less “than 10” and likely “5 or less.” The impacted companies were requested to reach out to domiciliary states to provide information. However the impact for these few companies is expected to be material. A consumer representative also voiced concerns about the illusory surplus and unlevel playing field such arrangements create. Because of the unfair competitive advantages that are perceived, the Working Group was not in favor of grandfathering the practices. However the Working Group did discuss that companies could have discussions with their domiciliary states regarding obtaining a permitted practice for phasing in the financial impact. A permitted practice approach was favored because the impact to the affected companies may vary.

• **Effective Date:** Although nonsubstantive revisions are generally effective upon adoption, the Working Group ultimately determined to have a Dec. 31, 2021 effective date. This was requested by two of the commenters at the March meeting. Annual 2020 effective dates were previously deferred to allow time for insurers to determine the impact and contact their domiciliary regulators. While some members of the Working Group supported an effective date earlier in 2021, it was discussed that a year end 2021 effective date would allow insurers, to assess the impact and review contracts, and additionally allow the issue to be fully through the NAIC committee process.