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

Issue: Early application of *SSAP No. 32R—Preferred Stock*

Check (applicable entity):

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

Description of Issue: On July 30, the Working Group adopted *Issue Paper No. 164—Preferred Stock* and substantively revised *SSAP No. 32R—Preferred Stock.* As is traditionally the case with substantive revisions, the Working Group, as recommended by NAIC staff, implemented an effective date of Jan. 1, 2021.

While the adoption updated the definitions, measurement and impairment guidance for all preferred stock, the most significant change was noted for the balance sheet reporting of perpetual preferred stock. With adoption of SSAP No. 32R, all perpetual preferred stock is to be valued at fair value, not to exceed any currently effective call price. NAIC staff were supportive of this change in valuation requirements as reporting these assets at fair value, as opposed to historical costs, allows for a more accurate representation of the value of such assets as perpetual preferred stock is more comparable to equity securities.

At the request of industry representatives, this agenda item has been drafted to permit the early adoption of SSAP No. 32R. If adopted, the impact of substantive revisions could be reflected in the 2020 year-end financial statements. (When revising SSAP No. 32R, it was noted that fair value is already used for perpetual preferred stocks and is the more appropriate measurement method for these equity-like securities.)

Existing Authoritative Literature:
The entire substantively revised SSAP No. 32R is relevant, however only the paragraph below would be impacted by this agenda item.

Effective Date and Transition

21. On July 30, 2020, substantive revisions, as detailed in *Issue Paper No. 164—Preferred Stock* were adopted. These revisions, effective January 1, 2021, update definitions of preferred stock and reporting values based on characteristics of the preferred stock.

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): N/A

Staff Recommendation: NAIC staff recommend that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to *SSAP No. 32R—Preferred Stock* to permit the early application of SSAP No. 32R.

SSAP No. 32R—Preferred Stock

Effective Date and Transition

21. On July 30, 2020, substantive revisions, as detailed in *Issue Paper No. 164—Preferred Stock* were adopted. These revisions~~, effective January 1, 2021,~~ update definitions of preferred stock and reporting values based on characteristics of the preferred stock and are effective January 1, 2021, with early adoption permitted.

Staff Review Completed by: Jim Pinegar, NAIC Staff – August 2020

Status:
On August 17, 2020, the Statutory Accounting Principles (E) Working Group voted by e-vote to move this item to the active listing, categorized as nonsubstantive, and exposed edits to *SSAP No. 32R—Preferred Stock* as detailed above. This item has a comment period deadline ending September 18, 2020.

G:\FRS\DATA\Stat Acctg\3. National Meetings\A. National Meeting Materials\2020\10-13-2020 - Public 43R\1 - 20-31 - Early Application of SSAP No. 32R.docx

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

Issue: ***ASU 2015-10, Technical Corrections & Improvements***

Check (applicable entity):

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

Description of Issue:
FASB issued *ASU 2015-10, Technical Corrections & Improvements* to update various FASB Accounting Standards Codification for minor corrections that were provided by stakeholders. FASB added a standing project to address feedback received from stakeholders on Codification and to make other incremental improvements to U.S. GAAP. This perpetual project will update Codification for technical corrections, clarifications and improvements.

Existing Authoritative Literature:
The table starting on page 2 summarizes the updates in this ASU, as well as defines the recommended actions for statutory accounting.

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): N/A

Staff Recommendation:
NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2015-10, Technical Corrections & Improvements* as not applicable for statutory accounting.

Staff Review Completed by:
Jim Pinegar and Fatima Sediqzad - NAIC Staff
April 2020

Status:
On July 30, 2020, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2015-10, Technical Corrections & Improvements* as not applicable to statutory accounting.

G:\FRS\DATA\Stat Acctg\3. National Meetings\A. National Meeting Materials\2020\10-13-2020 - Public 43R\2 - 20-26 - ASU 2015-10 Technical Corrections & Improvements Action Chart.docx

The last column lists the status of the GAAP source literature for statutory accounting and the recommended action.

Topic	ASC Reference	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
	105-10-65-3	Transition related to ASU 2015-10	5	**This update is not applicable – no action required.**
Discontinued Operations	205-20-45-1D	If the one-year requirement in paragraph 205-20-45-1E(d) is met, a business or nonprofit activity shall be classified as held for sale as a discontinued operation at the acquisition date if the other criteria in paragraph 205-20-45-1E (effectively ready and being marketed for sale) are probable of being met within a short period following the acquisition (usually within three months).	6-7	Guidance for discontinued operations is in SSAP No. 24 – in that discontinued operations shall be reported with the entity's reporting of continuing operations. **This update is not applicable – no action required.**
Statements of Cashflows	230-10-45-20 255-10-55-2	Updates the term *market value* to *fair value.* Cash receipts and cash payments resulting from purchases and sales of other securities and other assets shall be classified as operating cash flows if those assets are acquired specifically for resale and are carried at fair value in a trading account.	8-11	Security classifications, trading, held to maturity, etc., are not utilized for statutory accounting purposes. However, SSAP Nos. 26R, 37, 43R, already reference fair value in lieu of market value. **This update is not applicable – no action required.**
Personal Financial Statements	274-10	The example provided was an error and did not correctly illustrate the demonstrated disclosure.	12-14	**This update is not applicable – no action required.**
Receivables – Overall	310-10-35 310-10-45	1. Heading changes to certain sections to ease of finding certain information 2. Removed additional explanatory language regarding impairment loss based on the fair value of collateral	15-21	Bullets #1 and #3 are not applicable. Bullet #2 is referenced in SSAP No. 37 – which contains language regarding the impairment measurement based on the fair value of collateral less costs to

		when a creditor determines foreclosure is probable. 3. Updates reference links to other applicable paragraphs		obtain and sell. The additional explanatory language, which the FASB deemed may confuse readers, was not included in the SSAP. **This update is not applicable – no action required.**
Receivables – Nonrefundable Fees and Other Costs	310-20-35 310-20-50	Discusses the immediate expensing and related disclosures of certain origination costs associated with the issuance of a credit card that is not a private label credit card.	22-24	Private label credit cards are not addressed in statutory accounting. **This update is not applicable – no action required.**
Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality	310-30-35-10	Sentence structure changes for ease of reading. The primary change was the location of the verbiage “based on current information,” when determining impairment of certain loans.	25-26	*SSAP No. 26R—Bonds* & *SSAP No. 37-—Mortgage Loans* most closely matches the topic covered. However existing language in the AP&P manual is deemed appropriate and does not warrant the change notated. **This update is not applicable – no action required.**
Investments – Debt and Equity Securities	320-10-15-7	Sentence structure to clarify that equity securities accounted for under the cost method are excluded fair value reporting.	27-28	Update is not applicable – reporting of securities at an amortized cost of fair value is a function of NAIC designations *and* if the reporting entity maintains an asset valuation reserve. **This update is not applicable – no action required.**
Readily Determinable Fair Value	Master Glossary Term	Updates to the master glossary that the definition of readily determinable fair value may be applied to investments in a mutual fund or in a similar structure if the fair value per share is determined and published and is the basis for current transactions.	29-30	Fair value is more broadly defined in SSAP No. 100R and in addition, fair value reporting of equity securities (including mutual funds) is already required in SSAP No. 30R.

				This update is not applicable – no action required.
Recognition & Derecognition	320-10-25-20 & 320-10-40-3	Updates that state an investor shall account for two structured notes as a single until one is sold, at which time the notes shall be measured in the same way as a participating interest.	31-32	Update is not applicable – reporting of structured securities is defined in SSAP No. 43R, which utilizes NAIC designations *and* if the reporting entity maintains an asset valuation reserve for deterring the appropriate accounting and reported method. **This update is not applicable – no action required.**
Investments—Other—Beneficial Interests	325-40-55-1	Update discusses the treatment for accretion yield should an other-than-temporary impairment occur. Original guidance stated the accretion yield should be revised to 'market rate." Updated guidance states the yield is not changes as a result of recognizing OTTI. However, the yield may be changed prospectively for non-credit related factors.	33-34	SSAP No. 43R details the treatment for accretion yield for beneficial interests after an OTTI has been recognized. AP&P guidance states an accretion adjustment shall be made for the remaining life of the beneficial interest – a position more conservative than in this ASU. As such, no changes are recommended. **This update is not applicable – no action required.**
Liabilities—Extinguishment of Liabilities	405-20-55-4	Paragraph wording update, removing the language, "under the financial components approach," which *may* have implied that an alternative approach was available when analyzing the liability extinguishment in certain in-substance defeasance transactions.	35-36	SSAP No. 103R does not contain such language. As such, the ambiguity of regarding an alternative approach for review for these types of transactions does not exist. **This update is not applicable – no action required.**
Asset Retirement and Environmental Obligations	410-30-35-7	Removal of inconsequential wording, *"Remediation technology is changing constantly, and, in many cases, new*	37-38	While remediation is notated in the AP&P manual, this specific verbiage was not included.

		technologies have resulted in modified costs for environmental remediation."		**This update is not applicable – no action required.**
Guarantees – Overall	460-10-05-3	Removal of references to subordination agreements.	39-41	Subordination agreements are excluded from the definition of indemnifications or guarantees in statutory accounting. **This update is not applicable – no action required.**
Participating Mortgage Loans	470-30-35-4 470-30-35-4A	The GAAP codification condensed the accounting practices for two different types of mortgage participations (those related to the results of the operations and those related to market value appreciation).	42-44	The accounting for loan-backed participating securities is not bifurcated depending on the type of participation. SSAP No. 43R defines the presentation, recognition, impairment, etc. for such activities. **This update is not applicable – no action required.**
Receivables for Issuance of Equity	505-10-45-2	The update removes non-guidance commentary and adds reference to another authoritative paragraph stating that generally notes received for the issuance of equity typically require a deduction of the receivable from equity.	45-46	SSAP No. 72, paragraph 4 details that notes or other receivables for the issuance of stock which have been approved by the domiciliary commissioner and met other criterion, are considered admitted assets. If not met, the note receivable is nonadmitted. **This update is not applicable – no action required.**
Revenue Recognition—Multiple Element Arrangements	605-25-15-3A	The update includes references to additional paragraphs relevant to an entity's determination of how to allocate arrangement consideration in accordance with the relative selling price method, from ASU 2009-13, Revenue Recognition: Multiple-Deliverable Revenue Arrangements.	47-48	Multiple-deliverable revenue arrangements are not applicable to statutory accounting. **This update is not applicable – no action required.**

Compensation—Retirement Benefits—Defined Benefit Plans—Pensions	715-30-55-63 715-80-50-5(e)	Removes an incorrect reference to nonpublic entities (instead of not-for-profit entities) and edits one sentence related to a NFP's financial statement issuance	49-51	Specific guidance for NFP's is not applicable for SSAP. **This update is not applicable – no action required.**
Compensation—Stock Compensation—Employee Stock Ownership Plans	718-40	Correction of the definition of fair value in the glossary for topic 718-40 (Stock Compensation) to effectively replace "could be" with "would be" in the following: The price that could be received to sell an asset or paid to transfer a liability…". Additional guidance is given related to a transition period for the update.	52-56	SSAP No. 104R details share-based payments and its definition of fair value does not contain the affected language in the ASU update. **This update is not applicable – no action required.**
Other Presentation Matters	718-740	Corrects a reference in the applicable Subtopic regarding measuring actual tax deductions as a result of excess tax benefits.	57-58	**This update is not applicable – no action required.**
Income Taxes – Overall	740-10	Replaces the term "uncertain tax positions" with the broader term "uncertainty in income taxes." Additional guidance is given regarding the scope to which entities the update applies.	59-62	Previous guidance regarding uncertain tax positions is still pending for statutory accounting. **This update is not applicable – no action required.**
Income Taxes—Other	740-30	Eliminates the term subsidiary from the glossary of Subtopic 740-30.	63-67	Statutory accounting has a separate definition for the term subsidiary. **This update is not applicable – no action required.**
Business Combinations—Overall	805-10	Moves a paragraph that is codified in the incorrect Subtopic to the correct Subtopic.	68-69	Previous guidance over an incomplete business combination has been rejected for statutory accounting. **This update is not applicable – no action required.**

Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest	805-20	Amend a paragraph and add a paragraph with no link to a transition paragraph.	70	Relevant paragraphs refer to business combinations, which are accounted for differently under statutory accounting. **This update is not applicable – no action required.**
Not-for-Profit Entities—Business Combinations	958-805	Updates a paragraph reference.	71	**This update is not applicable – no action required.**
Derivatives and Hedging—Overall	815-10	Replaces the word “available” with the word “obtainable” to make this paragraph consistent with terminology in Topic 860.	72-73	*SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* already utilizes the term obtainable. **This update is not applicable – no action required.**
Derivatives and Hedging—Hedging—General	815-20	Changes an incorrect reference in paragraph 815-20-25-2, which currently references a paragraph that is not used in Codification.	74-77	**This update is not applicable – no action required.**
Derivatives and Hedging—Fair Value Hedges	815-25	Adds guidance on loans that are hedged items in a fair value hedge to the “recorded investment” definition.	78-80	Not a term in statutory accounting. **This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	Exemption to requirement to measure fair value in Topic 958 originated from an incorrect codification of the basis for conclusions in FASB Statement No. 116, Accounting for Contributions Received and Contributions Made.	81-86	**This update is not applicable – no action required.**
Transfers and Servicing—Overall	860-10	Adds a link to the Master Glossary definition of the term “attached call option” and the term “attached call” is updated to “attached call option.”	87-92	The minor (single word) definitional update is not substantially material, to justify adoption. Exhibit A in SSAP No. 103R already appropriately references and defines an “Attached Call” as a “call option…”

				This update is not applicable – no action required.
Transfers and Servicing—Sales of Financial Assets	860-20	Eliminates sentence that refers to initial measurement, which is covered in sections 815-10-30 and 860-20-30.	93-94	Removal of sentence is not necessary. **This update is not applicable – no action required.**
Financial Services—Insurance—Acquisition Costs	944-30	Conforms terminology in Subtopic 944-30 with the revised criteria for deferred acquisition cost capitalization established by ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts.	95-96	Capitalization of deferred acquisition costs is not a concept recognized by statutory accounting. **This update is not applicable – no action required.**
Not-for-Profit Entities—Overall	958-10	Simplifies and provides a more relevant example for this guidance.	97-98	Specific guidance for NFP's is not applicable for SSAP. **This update is not applicable – no action required.**
Not-for-Profit Entities—Presentation of Financial Statements	958-205	Clarifies and illustrates the accounting for situations resulting in the expiration of donor-imposed restrictions.	99-100	Donor-imposed restrictions is not a concept recognized by statutory accounting. **This update is not applicable – no action required.**
Not-for-Profit Entities—Master Glossary	958	Eliminates the term "agency transactions" and updates all links to the term "agency transaction" as they have the same definition.	101-107	**This update is not applicable – no action required.**
Not-for-Profit Entities—Revenue Recognition	958-605	Eliminates the link to one of two separate definitions of the term "control." There cannot be two identical terms in the same Subtopic.	108-110	Statutory accounting uses an alternative definition for the term "control." **This update is not applicable – no action required.**
Not-for-Profit Entities—Consolidation	958-810	Clarifies that the economic interest must be in the controlled not-for-profit entity, instead of using the vague phrase "other such organizations."	111-112	Statutory accounting uses an alternative definition for the term "control."

				This update is not applicable – no action required.
Amendments to SEC Materials			113-118	**This update is not applicable – no action required.**
Amendments to Status Sections			119-164	**This update is not applicable – no action required.**

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

Issue: *ASU 2019-09, Financial Services – Insurance; Effective Date*

Check (applicable entity):

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

Description of Issue: FASB issued *ASU 2019-09, Financial Services – Insurance* to defer the effective date of the amendments in *ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts*.

ASU 2018-12 was issued to improve U.S. GAAP recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. ASU 2018-12 had four primary areas of focus:

1. Assumptions - requires assumptions to be updated, and eliminates the U.S. GAAP provisions for risk of adverse deviation and premium deficiency testing.

2. Market Risk Benefits – requires all market risk benefits associated with deposit (or account balance contracts) to be measured at fair value.

3. Deferred Acquisition Costs - requires that deferred acquisition costs be amortized on a constant basis over the expected life of the contract.

4. Disclosures - requires new disclosures, predominantly in the form of rollforwards, to enable users to evaluate the amount, timing and uncertainty of cash flows arising from long-duration contracts.

Early adoption is permitted, however for most public entities ASU 2018-12 is now effective for fiscal years beginning after December 15, 2021. For all other entities, the effective date is for fiscal years beginning after December 15, 2023.

While minor edits were adopted to the Preamble, ***ASU 2018-12*** **was <u>rejected for statutory accounting</u>. The sole function of ASU 2019-09 is to extend the effective date for ASU 2018-12.**

Existing Authoritative Literature: As previously noted, ASU 2018-12 was rejected for statutory accounting.

References from Appendix D – Cross-Reference to SAP:

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference
2018-12	Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts	Complete	Reject	Preamble 50, 51R, 52, 54R, 55, 56, 71, 86

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: As ASU 2019-09 solely addresses the effective date of ASU 2018-12, which was previously rejected for statutory accounting, in the Preamble 50, 51R, 52, 54R, 55, 56, 71, 86. NAIC staff recommends rejecting ASU 2019-09 in *Appendix D—Nonapplicable GAAP Pronouncements*, as the pronouncement relates to transition of a previously issued GAAP pronouncement.

Convergence with International Financial Reporting Standards (IFRS): N/A in relation to this agenda item.

Staff Recommendation:
NAIC Staff recommends the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2019-09—Financial Services – Insurance* as not applicable for statutory accounting. This ASU solely addresses the effective date of ASU 2018-12, which was rejected by the Statutory Accounting Principles (E) Working Group on Aug. 3, 2019.

Staff Note: On June 10, 2020, the FASB exposed a proposed ASU, for a 45-day comment period, that would grant insurance companies that issue long-duration contracts, such as life insurance and annuities, an additional year to implement *Accounting Standards Update No. 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. Under the proposal, the implementation of the insurance standard would be delayed by another year. Public insurers, excluding small public companies, could delay implementing the standard to fiscal years after Dec. 15, 2022, while all others could wait until fiscal years after Dec. 15, 2024. As ASU 2018-12 was rejected for SAP, it is anticipated that this extension will also be rejected as not applicable for statutory accounting once the ASU is final. This notice is just intended to advise of the further extension of the effective date.

Staff Review Completed by: Jim Pinegar, NAIC Staff – April 2020

Status:
On July 30, 2020, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2019-09—Financial Services – Insurance* as not applicable to statutory accounting.

G:\FRS\DATA\Stat Acctg\3. National Meetings\A. National Meeting Materials\2020\10-13-2020 - Public 43R\3 - 20-27 - ASU 2019-09 Insurance Effective Date.docx

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

Issue: *ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*

Check (applicable entity):

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

Description of Issue: In Jan. 2016, FASB issued *ASU 2016-01, Financial Instruments, Recognition and Measurement of Financial Assets and Financial Liabilities,* which allows an entity to measure certain equity securities (without a readily determinable fair value) at cost, less any impairments. <u>This alternative measurement method and ASU 2016-01 were rejected for statutory accounting.</u>

ASU 2020-01 addresses stakeholder questions regarding accounting for the transition between the alternative measurement method allowed in ASU 2016-01 (at cost, less impairments) to the equity method of accounting. Investments that are accounted for under the equity method of accounting are excluded from the fair value instrument disclosures in *SSAP No. 100R—Fair Value*.

Two main issues are discussed in this ASU:

- <u>Issue 1: Accounting for Certain Equity Securities upon the Application or Discontinuation of the Equity Method of Accounting</u>: The amendments in ASU 2020-01 clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321-Investments-Equity Securities immediately before applying or upon discontinuing the equity method.

  Paragraphs were amended in Topics 321 and 323 to state that an entity should remeasure the security upon adopting the equity method of accounting or upon discontinuance of the equity method, respectively. The value would then be applied to retained earnings. (Although the alternative measurement method under ASU 2016-01 was rejected, reporting entities can use the market value method instead of the equity method, if they qualify under SSAP No. 97. Under statutory accounting, a change to or from the equity method of accounting from the market value method must be approved by the commissioner. When this occurs, the investment is adjusted the reporting the equity interest in the SCA entity under the new method, with the difference recognized as an unrealized gain or loss.)

- <u>Issue 2: Scope Considerations for Forward Contracts and Purchased Options on Certain Securities</u>: The amendments in this ASU clarify that an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323: Investments-Equity Method and Joint Ventures or the fair value option in accordance with the financial instruments guidance in Topic 815: Derivatives and Hedging. An entity would also evaluate the remaining characteristics to determine the accounting for those forward contracts and purchased options.

  Amendments to Topic 815 were added to explain that the guidance in the Certain Contracts on Debt and Equity Securities subsections apply to those forward contracts and purchased options that are <u>not</u> derivative instruments, but that involve the acquisition of securities that will be accounted for under Topic 321-Equity Securities.

For statutory accounting, *EITF 96-11, Accounting for Forward Contracts and Purchased Options to Acquire Securities Covered by FASB Statement No. 115* was previously rejected. As such, this topic is not part of statutory accounting.

Existing Authoritative Literature:

SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies (bolding for emphasis)

6. **Investments in these ventures, except for joint ventures, partnerships and limited liability companies with a minor ownership interest[1], shall be reported using an equity method as defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraphs 8.b.i. through 8.b.iv.** A reporting entity whose shares of losses in a SSAP No. 48 entity exceeds its investment in the SSAP No. 48 entity shall disclose the information required by SSAP No. 97, paragraph 35.a.

10. **The amount to be recorded shall be defined as the initial investment in an investee at cost (as defined in paragraph 3 of *SSAP No. 68—Business Combinations and Goodwill*) plus subsequent capital contributions to the investee.** The carrying amount of the investment shall be adjusted for the amortization of the basis difference (difference between the cost and the underlying GAAP equity), as well as to recognize the reporting entity's share of: (i) the audited U.S. GAAP basis earnings or losses of the investee after the date of acquisition, adjusted for any distributions received, or (ii) if audited U.S. GAAP basis financial statements of the investee are not available, the earnings or losses of the investee after the date of acquisition, adjusted for any distributions received, based on either one of the valuation methodologies allowed under paragraphs 9.a. or 9.b. A reporting entity's share of adjustments, excluding changes in capital contributions to the investee, that are recorded directly to the investee's stockholders' equity shall also be recorded as adjustments to the carrying value of the investment with an offsetting amount recorded to unrealized capital gains and losses on investments.

SSAP No. 86—Derivatives (bolding for emphasis)

18. Derivative instruments represent rights or obligations that meet the definitions of assets (*SSAP No. 4—Assets and Nonadmitted Assets*) or liabilities (SSAP No. 5R) and shall be reported in financial statements. In addition, derivative instruments also meet the definition of financial instruments as defined in *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*. **Should the cost basis of the derivative instrument be undefined (i.e., no premium is paid), the instrument shall be disclosed in accordance with paragraphs 44-48 of *SSAP No. 100R—Fair Value*. Derivative instruments used in hedging, income generation or replication (synthetic asset) transactions shall be recognized and measured in accordance with the specific provisions within this statement and are admitted assets to the extent they conform to the requirements of this statement.**

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities (bolding for emphasis)

4. An affiliate is defined as an entity that is within the holding company system or a party that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the reporting entity. An affiliate includes a parent or subsidiary and may also include partnerships, joint ventures, and limited liability companies as defined in *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability*

[1] With the identification of whether the reporting entity has a minor ownership interest, reporting entities must also identify whether the investment is a related-party transaction. Pursuant to the concepts reflected in *SSAP No. 25—Affiliates and Other Related Parties*, consideration shall be given to the substance of the transaction and the parties whose action or performance materially impacts the insurance reporting entity holding the security. For example, if the underlying assets within a SSAP No. 48 entity represent assets issued by an affiliate, then the SSAP No. 48 entity shall be considered a related party (affiliate) investment, with the transaction subject to the accounting and reporting provisions of SSAP No. 25. As identified in SSAP No. 25, it is erroneous to conclude that the inclusion of a non-related intermediary, or the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to identify and assess the investment transaction as a related party arrangement.

Companies. **Those entities are accounted for under the guidance provided in SSAP No. 48, which requires an equity method for all such investments.**

5. Control is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the investee, whether through the (a) ownership of voting securities, (b) by contract other than a commercial contract for goods or nonmanagement services, (c) by common management, or (d) otherwise. Control shall be presumed to exist if a reporting entity and its affiliates directly or indirectly, own, control, hold with the power to vote, or hold proxies representing 10% or more of the voting interests of the entity[2].

6. Control as defined in paragraph 5 shall be measured at the holding company level. For example, if one member of an affiliated group has a 5% interest in an entity and a second member of the group has an 8% interest in the same entity, the total interest is 13% and therefore each member of the affiliated group shall be presumed to have control. This presumption will stand until rebutted by an evaluation of all the facts and circumstances relating to the investment based on the criteria in *FASB Interpretation No. 35, Criteria for Applying the Equity Method of Accounting for Investments in Common Stock, an Interpretation of APB Opinion No. 18.* The corollary is required to demonstrate control when a reporting entity owns less than 10% of the voting securities of an investee. The insurer shall maintain documents substantiating its determination for review by the domiciliary commissioner**. An investment in an SCA entity may fall below the level of ownership described in paragraph 5, in which case, the reporting entity would discontinue the use of the equity method, as prescribed in paragraph 13.g. Additionally, through an increase in the level of ownership, a reporting entity may become qualified to use the equity method of accounting (paragraph 8.b.), in which case, the reporting entity shall add the cost of acquiring additional interest to the current basis of the previously held interest and shall apply the equity method prospectively, as of the date the investment becomes qualified for equity method accounting.** Examples of situations where the presumption of control may be in doubt include the following:

a. Any limited partner investment in a limited partnership, unless the limited partner is affiliated with the general partner.

b. An entity where the insurer owns less than 50% of an entity and there is an unaffiliated individual or group of investors who own a controlling interest.

c. An entity where the insurer has given up participating rights[3] as a shareholder to the investee.

13.g. **An investment in a SCA entity may fall below the level of ownership described in paragraph 5 from the sale of a portion of an investment by the reporting entity, the sale of additional interests by an investee, or other transactions. The reporting entity shall discontinue accruing its share of the earnings or losses of the investee for an investment that no longer qualifies for an equity method. The earnings or losses that relate to the investment interests retained by the reporting entity and that were previously accrued shall remain as a part of the carrying amount of the investment. The investment account shall not be adjusted retroactively under the conditions described in this subparagraph.** However, dividends received by the investor in subsequent periods which exceed the reporting entity's share of earnings for such periods shall be applied as a reduction of the carrying amount of the investment.

---

[2] Investments in an exchange traded fund (ETF) or a mutual fund (as defined by the SEC) does not reflect ownership in an underlying entity, regardless of the ownership percentage the reporting entity (or the holding company group) has of the ETF or mutual fund unless ownership of the ETF actually results in "control" with the power to direct or cause the direction of management of an underlying company. ETFs and mutual funds are comprised of portfolios of securities subject to the regulatory requirements of the federal securities laws. ETFs and mutual funds held by a reporting entity shall be reported as common stock, unless the ETF qualifies for bond or preferred stock treatment per the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. Reporting entities are not required to verify that SCAs (subject to SSAP No. 97) are represented in the portfolio of securities held in ETFs or mutual funds or to adjust the value of SCAs as a result of investments in ETFs or mutual funds.

[3] The term "participating rights" refers to the type of rights that allows an investor to effectively participate in significant decisions related to an investee's ordinary course of business and is distinguished from the more limited type of rights referred to as "protective rights". Refer to the sections entitled: "Protective Rights" and "Substantive Participating Rights" in *EITF 96-16, Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights*. The term "participating rights" shall be used consistent with the discussion of substantive participating rights in this EITF.

14. Once the reporting entity elects to use a valuation approach for a particular subsidiary, the reporting entity may not change the valuation method to another method without the approval of the domiciliary commissioner. For instance, if an entity selects the market valuation method, it may not change to an equity method or vice versa without approval from the domiciliary commissioner. Further, in order for an entity to transfer from a paragraph 8.a., or 8.b.ii. valuation to a paragraph 8.b.iii. valuation, the SCA shall not exceed the 20% threshold (as defined in paragraphs 8.b.ii.) for three consecutive years prior to making the change. When an investment qualifies for use of another method of accounting, the reporting entity shall adopt the new method of accounting and the investment shall be adjusted to reflect the reporting entity's equity interest in the SCA entity under the new method. A corresponding amount shall be recorded as an unrealized gain or loss.

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): This ASU was issued to clarify ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which was rejected by the Working Group at the Summer 2016 National Meeting. ASU 2016-01 was rejected as SAP reporting classifications and valuation measurements differ from GAAP.

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

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:

Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to reject *ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815* for statutory accounting. These revisions noting rejection are proposed to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* and *SSAP No. 86—Derivatives*, as illustrated below.

SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies

28. This statement rejects *ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815.*

SSAP No. 86—Derivatives

69. This statement rejects *ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 and ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities*, and *ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging*.

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities

48. This statement rejects *ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815, ASU 2019-06, Intangibles—Goodwill and Other Business Combinations, and Non-for-Profit Entities, ASU 2011-10, Derecognition of in Substance Real Estate, APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, AICPA Accounting Interpretations APB 18, The Equity Method of Accounting for Investments in Common Stock:* Accounting Interpretations of *APB Opinion No. 18, FASB Technical Bulletin No. 79-19, Investor's Accounting for Unrealized Losses on Marketable Securities Owned by an Equity Method Investee, FASB Emerging Issues Task Force No. 87-21, Change of*

Accounting Basis in Master Limited Partnership Transactions, FASB Emerging Issues Task Force No. 96-16, Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights, *FASB Emerging Issues Task Force No. 98-2: Accounting by a Subsidiary or Joint Venture for an Investment in the stock of Its Parent Company or Joint Venture Partner* and *FASB Staff Position No. APB 18-1*, *Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence.*

Staff Review Completed by:
NAIC Staff – Fatima Sediqzad
April 2020

Status:
On July 30, 2020, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to reject *ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815* for statutory accounting. As illustrated above, revisions noting rejection are proposed to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* and *SSAP No. 86—Derivatives*.

G:\FRS\DATA\Stat Acctg\3. National Meetings\A. National Meeting Materials\2020\10-13-2020 - Public 43R\4 - 20-28 - ASU 2020-01.docx

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

Issue: ***ASU 2020-05—Effective Dates for Certain Entities***

Check (applicable entity):

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

Description of Issue:
FASB issued *ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*, which updates the effective dates for *ASU 2014-19, Revenue from Contracts with Customers (Topic 606)* and *ASU 2016-02, Leases (Topic 842)*. Both ASU 2014-19 and ASU 2016-02 have been rejected for statutory accounting. The guidance in ASU 2020-05 defers the effective date for the prior ASUs by one year for companies that have not yet implemented the new guidance.

Existing Authoritative Literature:
The ASUs related to ASC Topic 606 have been rejected in *SSAP No. 47—Uninsured Plans* and the ASUs related to Topic 842 have been rejected in *SSAP No. 22R—Leases*.

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): ASC Topic 606 and 842 both result from joint projects FASB and IASB.

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities* as not applicable to statutory accounting.

This item is proposed to be rejected as not applicable as ASU 2020-05 only impacts the effective date for U.S. GAAP guidance that has been rejected for statutory accounting.

Staff Review Completed by: Jake Stultz, June 2020

Status:
On July 30, 2020, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities* as not applicable to statutory accounting.

G:\FRS\DATA\Stat Acctg\3. National Meetings\A. National Meeting Materials\2020\10-13-2020 - Public 43R\5 - 20-29 - ASU 2020-05.docx

D. Keith Bell, CPA
Senior Vice President
Accounting Policy
Corporate Finance
The Travelers Companies, Inc.
Phone : 860-277-0537
Email: d.keith.bell@travelers.com

Rose Albrizio, CPA
Vice President
Accounting Practices
Equitable
Phone: 201-743-7221
Email: rosemarie.albrizio@equitable.com

September 18, 2020

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 July 30 with Comments due September 18

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 #2019-24: Levelized and Persistency Commission

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 71—Policy Acquisition Costs and Commissions* (SSAP No. 71) to clarify levelized commissions guidance and provide additional direction regarding commissions that are based on policy persistency. The revisions also clarify that the recognition of commission expense is based on experience to date. The revisions are intended to clarify the original intent of SSAP No. 71 regarding levelized commissions. Reporting entities that have not complied with the original intent of the statement are to reflect the change as a correction of an error (as a mistake in the application of an accounting principle) pursuant to SSAP No. 3 in the December 31, 2020 financial statements. In accordance with SSAP No. 3, correction of all accounting errors in previously issued financial statements, for which an amended financial statement was not filed, are to be reported as an adjustment to unassigned funds (surplus) in the period in which the error was detected. Disclosure shall also occur in accordance with SSAP No. 3.

Interested parties would like to propose the following edits to SSAP No. 71, similar to those sent in January 2020.

SUMMARY CONCLUSION

2. Acquisition costs are those costs that are incurred in the acquisition of new and renewal insurance contracts and include those 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). Acquisition costs and commissions shall be expensed as incurred. Determination of when acquisition costs and commissions have been incurred shall be made in accordance with SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets. For example, when commissions are paid directly to an agent based upon renewal such as in traditional trail commission arrangements, commission expense would be recognized when the obligating event (i.e., the renewal) occurs and the related premium revenue is recognized.

3. Contingent commission liabilities shall be determined in accordance with the terms of each individual commission agreement. Commission liabilities determined on the basis of a formula that relates to loss experience shall be established for the earned portion. Assumptions used to calculate the contingent commission liability shall be consistent with the terms of the policy contract and with the assumptions made in recording other assets and liabilities necessary to reflect underwriting results of the reporting entity such as retrospective premium adjustments and loss reserves, including incurred but not reported. Other than the commission arrangements discussed in Paragraph 2, commission contracts that include persistency (or other such components) shall not use these clauses to defer recognition of commission expense. If a commission is based on annual policy persistency (or other similar components), the commission shall be accrued ratably over each annual period based on experience to date for which the persistency commission will be paid.~~the policy period that the commission relates~~. In regard to persistency commission, it is inappropriate to wait until the amount is fully earned and/or unavoidable to accrue experience to date commission expenses. Actual policy cancellation would reverse the accrual of the related persistency commission.

4. Levelized commissions occur in situations where agents receive normal (non-level) commissions with payments made by a third party. It is intended, but not necessarily guaranteed, that the amounts paid to the agents by the third party would ultimately be repaid (with interest explicit or implied) to the third party by levelized payments (which are less than the normal first year commissions but exceed the normal renewal commissions) from the reporting entity. (Note: levelized repayments made by the reporting entity extend the repayment period but might not be a straight-line repayment.) These transactions are, in fact, funding agreements between a reporting entity and a third party,. A funding agreement is an agreement whereby a third party provides a lump sum of money in return for a stream of payments over a predetermined time period. The payment stream is fixed without regard to the traditional elements of continued premium payments or policy persistency. The continuance of the stream of payments specified in the levelized commission contract is a mechanism to bypass recognition of those expenses which are ordinarily charged to expense in the first year of the contract. Consequently, the normal link between the persistency of the policy, the continuance of the premium payment or the maintenance of the agent's license with the reporting entity is not maintained with respect to the payment stream.

5. The use of an arrangement such as a levelized commission arrangement where commission payments are not linked to traditional elements such as premium payments and policy persistency, but rather are linked to the repayment of an advance amount paid by a third party to the agents requires the establishment of a liability by the reporting entity for the full amount of the unpaid principal and accrued interest which is payable to a third party related to levelized commissions ~~FN~~.

~~New Footnote – The guidance in this paragraph notes that levelized commissions which use a third party to pay agents that are linked to traditional elements require establishment of a liability for the amounts that have been paid to the agents and any interest accumulated to date.~~

Effective Date and Transition

7. 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*. ~~The nonsubstantive revisions adopted ________ regarding levelized commission intend to clarify the original intent of this statement. Reporting entities that have not complied with the original intent of the statement shall reflect the change as a correction of an error (as a mistake in the application of an accounting principle) pursuant to SSAP No. 3 in the December 31, 2020 financial statements. In accordance with SSAP No. 3, correction of all accounting errors in previously issued financial statements, for which an amended financial statement was not filed, shall be reported as an adjustment to unassigned funds (surplus) in the period in which the error was detected. Disclosure shall also occur in accordance with SSAP No. 3.~~

We request that the above edits be incorporated into the proposed Ref #2019-24.

In addition, we believe that what have been deemed non-substantive clarifications to the original intent of SSAP No. 71 proposed by the SAPWG in Ref #2019-24 are in fact **substantive modifications** that materially change accounting practices that were established long before the 2001 codification, and that continue today in many different forms

Per the SAPWG process, substantive statutory accounting revisions introduce original or modified accounting principles. Substantive revisions can be reflected in an existing Statement of Statutory Accounting Principles (SSAP) or a new SSAP. Nonsubstantive statutory accounting revisions are characterized as language clarifications that do not modify the original intent of a SSAP. SSAPs are considered the highest authority (Level 1) in the statutory accounting hierarchy.

The proposed accounting treatment in Ref #2019-24 is significantly different than the current interpretation of the original SSAP and general statutory principles, specifically, full recognition of an expense at the time the policy is issued versus incremental recognition of commission costs over time as the policy persists and they become legal obligations. The current proposed language does not address the many varying product/distribution compensation arrangements in the industry and IP believe this will cause unintended consequences. The link between the traditional elements such as policy persistency and the accrual of commissions is a long-standing principle. Eliminating the link to the policy persistency is not a clarification, it is a substantive change that modifies the original intent of SSAP No. 71, thus requiring further evaluation.

Interested parties believe that the exposure as written will also unintentionally impact the accounting for certain types of traditional trail commission arrangements that are commonplace in the market for life and annuity products. Although funding agreements can also have elements that are based upon policy persistency, there exists in the industry a longstanding practice of compensating agents directly based upon policy persistency. In these scenarios, the reporting entity has an agreement in place with agents that requires commission payment if and only if a policy persists (for example, at each annual renewal). If a policyholder opts not to renew, the reporting entity has no obligation to pay further commissions to the agent.

As written, interested parties believe this exposure would require the reporting entity to accrue these trail commissions at policy inception, which would be counter to the principles contained in SSAP No. 5R - *Liabilities, Contingencies and Impairment of Assets*. These commissions are not liabilities until the policy persists, and, until that time, the transaction obligating the entity has not occurred. Language added to paragraph 2 is intended to distinguish the scope of the guidance in paragraphs 3-5 from these traditional trail commission arrangements.

Further, interested parties strongly disagree with the modifications to paragraph 7. Reporting entities have filed annual statements based on the current interpretation of SSAP No. 71 with unqualified opinions from their external auditors. Regulatory examinations have also been completed by various states of domicile insurance departments without adjustment. IP believe that if the proposed revisions are adopted and result in an accounting change, these should be reflected as a change in accounting principle. Per SSAP No. 3, "A change in accounting principle results from the adoption of an accepted accounting principle, or method of applying the principle, which differs from the principles or methods previously used for reporting purposes." Reporting entities that in good faith applied a particular method by following SSAP No. 71 and were not required to adjust statements as a result of audits or regulatory examinations, should not be considered to have made an **accounting error**. As such, interested parties disagree with the modifications in paragraph 7. As noted above, the proposed revisions to SSAP No. 71 substantially change the interpretation that has been followed for years, and therefore, the original text would apply for a reporting entity that must change its method of applying the revised SSAP No. 71.

In summary, we recommend that the NAIC consider the changes contained in the current Ref #2019-24 exposure be reclassified as **substantive, that an issue paper be drafted, and that this be re-exposed and processed accordingly.**

Ref #2019-34: Related Parties, Disclaimers of Affiliation and Variable Interest Entities

The Working Group exposed proposed changes to SSAP No. 25 as described below:

- Based on the comments from the Group Solvency Issues (E) Working Group, NAIC staff added a new disclosure that provides information on minority ownership interests, as well as significant relationships between minority owners and other U.S. domestic insurers/groups. This new disclosure is not intended to include passive fund owners, such as ETFs and mutual funds. This is in paragraph 22 in the exhibit to this agenda item.

- NAIC staff removed the direct references to U.S. GAAP and SEC guidance that was included in the initial draft revisions. It was not intended to incorporate by reference the guidance from these sources but was instead intended to show that the revisions were going to be more consistent with the U.S. GAAP and SEC guidance. The language that was added to the description of related parties in paragraph 4 in the original exposure draft are all language from either U.S. GAAP or from laws and regulations related to the SEC.

- With the proposed rejection of the U.S. GAAP VIE guidance for statutory accounting, our intention is to rely on SSAP No. 25, including the proposed revisions, to capture related parties for reporting. These updates are not intended to change reporting in Schedule BA or Schedule D for any investments.

Based upon a call with NAIC staff and our understanding of the objective of the changes to SSAP No. 25, interested parties marked up SSAP No. 25 with edits that are directed at ownership interests in insurers (the reporting entity) of greater than 10% where the investor (owner) has filed and received a disclaimer of control, but leaves the requirements for investments of the insurer unchanged, except for the proposed additions to certain of the sub-paragraphs of paragraph 4 (see attached).

Also, we reviewed the two approaches for reporting shared by SAPWG staff with interested parties on September 1 regarding the proposed disclosure of ownership interests in insurers of greater than 10%. We believe the Schedule Y approach is the better of the two as it allows for the capture of more information regarding complex ownership arrangements; however, we believe that the development of instructions to go along with the new part of Schedule Y is needed before concluding on that approach.

Ref #2020-17: Updating the SCA Review Process

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* to provide updated descriptive language regarding SCA reviews. Additionally, this agenda item proposes a more streamlined method for communicating SCA review results.

Interested parties offer the following comments:

- We have no comments on the Form A.
- On the 2 additional files (see attached mark-up versions) which provide filing procedures for filing a Sub-1 form and a Sub-2 form, we suggest changing the following in the ‘Note

to filer' paragraph on the first page of each document, which is consistent with changes adopted by SAPWG 2017-08 (Extension of SCA Filing Deadlines):

- ✓ A Sub-1 form is required to be filed within ~~30~~ 90 days of the acquisition or formation of the investment. A Sub-2 form is required to be filed annually for any existing investment~~, by June 30th of the next calendar year~~ by August 31st or one month after the audit report date.

- On page 8 of the Sub-2 document, there is reference to 'Sub-1' when it appears that it should be 'Sub-2'. This change has been reflected as a mark-up in the Sub-2 document.

Ref #2020-18: SSAP No. 97 Update

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, removing the statement that guarantees or commitments from the insurance reporting entity to the SCA can result in a negative equity valuation of the SCA. This update reflects recently adopted guidance from agenda item 2018-27 which states that reported equity losses of an SCA shall not go negative (thus the reported basis will stop at zero), however to the extent there is a financial guarantee or commitment, that liability would be recognized in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets.*

As stated in the Exposure, earlier this year SAPWG adopted item 2018-26 – SCA Loss Tracking – Accounting Guidance, which updated the accounting guidance provided under SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities* (SSAP No. 97). Item 2018-26 stated that reported equity method losses of an investment in a subsidiary controlled or affiliated entity ("SCA") would not create a negative value in the SCA investment, thus stopping the reporting of the equity method losses at zero. However, to the extent there was a financial guarantee or commitment, it would require appropriate recognition under *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets.* These updates were made to paragraph 14e of SSAP No. 97.

The Exposure intends to further clarify paragraph 9 of SSAP No. 97, which describes all the adjustments that must be recorded by the insurer when recording its equity pick up in 8.b.ii and 8.b.iv entities (8.b.iv entities will be referred to herein as "foreign insurance subsidiaries"). Per the Exposure, the last sentence in paragraph 9 is being modified as shown below to make the sentence consistent with the guidance that was issued under item 2018-26:

> "Note that the outcome of these adjustments, ~~as well as guarantees or commitments of the parent entity to provide additional funding,~~ can result in a negative equity valuation of the investment."

This change suggests that SSAP No. 97 requires negative equity valuation of foreign insurance subsidiaries. If that was always the intent, we would point out that there are substantive reasons to differentiate foreign insurance subsidiaries from 8.b.ii entities and floor their equity at zero, including the fact that foreign insurance entities have a true business purpose, independent from the parent insurer, and are subject to significant regulations in the foreign jurisdiction in which they operate.

In addition to these reasons, requiring negative equity valuation of foreign insurance subsidiaries would also appear to be a change from our prior understanding, which was based in part upon question 7 of the SSAP No. 97 Q&A. Question 7 of the SSAP No. 97 Q&A only refers to 8.b.ii entities as the type of entities for which negative equity would be required to be recorded. Since question 7 does not mention foreign insurance subsidiaries, we historically interpreted that to mean that negative equity would not be recorded for those entities, regardless of whether the negative equity was due to operating losses or paragraph 9 adjustments.

Interested parties request clarification from the SAPWG on whether the intent of the Exposure's modifications to the paragraph 9 adjustments is intended to cause an insurer's equity investment in a foreign insurance subsidiary to fall below zero. We are also seeking clarification on whether question 7 of the SSAP No. 97 Q&A was only meant to apply to operating losses and not paragraph 9 adjustments. (On a related note, we suggest that question 7 of the SSAP No. 97 Q&A itself be updated to reflect this Exposure since question 7 of the Q&A makes reference to 8.b.ii entities being reported with negative equity. However, we understand that Ref #2018-26 changed that so that negative equity would only be tracked and not reported unless there was a guarantee issued by the insurance reporting entity on the subsidiary.)

In regard to the potential intent of paragraph 9 adjustments requiring an insurance reporting entity to report its equity investment in a foreign insurance subsidiary or an 8.b.ii. subsidiary at an amount below zero, we offer a few comments and observations.

- We agree that with respect to 8.b.ii entities, the statutory accounting guidance would require an insurer to report negative equity since 8.b.ii entities are considered an extension of the insurance company. 8.b.ii entities may own assets that would not be admitted if owned by the insurer, so it is reasonable to require the insurer to report negative equity in those subsidiaries to prevent such assets from becoming admissible simply because they are owned by an 8.b.ii subsidiary and not owned directly by the insurer.
- We, however, do not agree that the application of the paragraph 9 adjustments should ever result in the insurer's investment in a foreign insurance subsidiary being reported at an amount less than zero. Prior to applying the SSAP No. 97 paragraph 9 adjustments, the GAAP equity of a foreign insurance subsidiary is subject to the following recoverability and impairment tests on the net assets inherent in its GAAP equity:
    - ✓ GAAP loss recognition testing of DAC and reserves, for which additional liabilities would be established for expected future losses beyond recovery of any GAAP assets (including recoverability of deferred acquisition costs, or DTAs),
    - ✓ GAAP impairment testing of asset balances (e.g. – goodwill, DTA's, investment other-than-temporary losses)

The application of the paragraph 9 adjustments to a foreign insurance subsidiary's GAAP equity results in a valuation of these entities that is in some cases more conservative than U.S. statutory accounting and that does not reflect the foreign insurance subsidiary's valuation. (For example, deferred acquisition costs that have been deemed recoverable under GAAP are non-admitted, while holding the higher gross GAAP reserve that has no implicit credit for acquisition expenses that is inherent in statutory reserves).

Furthermore, foreign insurance companies are more akin to 8.b.iii entities as they are independent business entities that sell insurance products to customers. In addition, foreign insurance subsidiaries are subject to significant regulations, including capital requirements, by their local insurance regulators. As such, unlike 8.b.ii SCA entities, these foreign insurance companies are stand-alone operations and not an extension of the domestic insurance company. Therefore, we believe these entities should be treated consistently as an 8.b.iii SCA entity, and only recognize a negative equity value (in the form of an SSAP No. 5R liability) to the extent the parent insurance company has guaranteed obligations of the foreign insurance company or is otherwise committed to provide further financial support for the investee.

Finally, not all foreign insurance companies receive audited GAAP financial statements. In these situations, the investment in the foreign insurance subsidiary (cost basis) is non-admitted, and no results are reflected in surplus until the foreign insurance company distributes earnings to the parent insurance company. If a parent insurance company does decide to obtain an audit of its foreign insurance company, it should not result in an impact to surplus that is worse than non-admitting the investment.

Ref #2020-19: Clarification Edits - Mortgage Loan Participations

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 37—Mortgage Loans* to clarify that a participant's financial rights may include the right to take legal action against the borrower (or participate in the determination of legal action), but do not require that the participant have the right to solely initiate legal action, foreclosure, or under normal circumstances, require the ability to communicate directly with the borrower.

Interested parties support this proposal.

Ref #2020-20: Disclosure of Rolled Cash Equivalent Investments

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to require the identification/disclosure of cash equivalents and short-term investments, or substantially similar investments, which remain on the same reporting schedule for more than one consecutive reporting period. (This revision expands current disclosure requirements to include cash equivalent investments.) Additionally, the revisions clarify that the disclosure is satisfied through the use of the code on the investment schedules.

Interested parties support the clarification that the disclosure elements as adopted for short term investments shall also apply to relevant cash equivalent investments, and the stipulation that this disclosure is satisfied by use of a designated code in the investment schedules of the statutory financial statements. To avoid inadvertently capturing data which is not relevant to the objectives of this disclosure, we suggest the following qualification be added to the exposed language proposed:

> "Identification of cash equivalents ***(excluding money market mutual funds as detailed in paragraph 7)*** and short-term investments, (or substantially similar investments), which remain on the same reporting schedule for more than one consecutive reporting period."

Ref #2020-21: SSAP No. 43R - Designation Categories for RMBS/CMBS Investments

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 43R—Loan-backed and Structured Securities*, to reflect the updated final designation guidance for RMBS/CMBS securities. This update will reflect the guidance recently adopted for the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P manual).

Interested parties support the alignment of final designation guidance for RMBS/CMBS securities in SSAP No. 43R with the instructions recently adopted into Part Four of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* ("P&P Manual"). To avoid confusion and foster consistent and appropriate application for statutory accounting and reporting purposes in alignment with the instructions in the P&P Manual, we suggest the following editorial clarifications to the proposed updates for SSAP No.43R, paragraph 27.a.iii:

> "Step 3: Determine Final Designation – The final NAIC designation~~**, as determined by the modeled price range,**~~ is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 27.a.ii.) to the NAIC CUSIP specific modeled breakpoint values assigned to the six (6) NAIC designations for each CUSIP. ***The final*** NAIC designations ***is*** mapped to ***an*** NAIC designation **category according to the instructions** in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*~~**, along with instructions for tranches that have no expected loss under any of the selected modeling scenarios and instructions for non-modeled securities**~~. The final NAIC designation ~~**and NAIC designation category**~~ shall be applicable for statutory accounting and reporting purposes**, and the NAIC designation category will be used for** investment schedule reporting and establishing ~~**RBC and**~~ AVR charges. The final NAIC designation is not used for establishing the appropriate carrying value method in Step 2 (paragraph 27.a.ii.)."

*The reference to RBC is unnecessary in the statutory accounting and reporting guidance of the AP&P Manual, as this is already appropriately covered with the NAIC's Risk Based Capital Instructions and Forms.

Ref #2020-22: Accounting for Perpetual Bonds

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 26R—Bonds*, to clarify that perpetual bonds shall be reported at fair value, not to exceed any current effective call price. Although this is considered a nonsubstantive change, a stated effective date of Jan. 1, 2021, with early application permitted, has been proposed to allow time for reporting entities to make measurement changes as needed.

Interested parties appreciate the opportunity to respond to the SAPWG proposed Ref #2020-22, *Accounting for Perpetual Bonds* ("the proposal"). In the proposal, perpetual bonds are defined as those fixed income securities, representing creditor relationships, with fixed schedules of future payments, however the bonds do not contain maturity dates. The proposal compares perpetual bonds to perpetual preferred stock and concludes that they are substantially the same, with the primary cash flow difference being that perpetual bonds have priority in liquidation versus preferred stock. The proposal also states that due to the lack of a maturity date, insurers do not accrete discounts or amortize premiums. As a result, Ref #2020-22 proposes that perpetual bonds be treated the same as perpetual preferred stock by reporting them at fair value for Statutory reporting. Although not specifically stated in the exposure, it is interested parties' presumption that this implies that periodic changes in fair value would be reported in unrealized capital gains and losses.

Interested parties agree that perpetual bonds do have some characteristics in common with equity securities, which justify their continued reporting as hybrids on Schedule D as established in INT 2008-06's hybrid discussions. However, we believe that the characteristics of these investments are substantially similar to bonds, are utilized by insurers with similar investment objectives as investing in other bonds and are viewed by the capital markets as bonds. As a result, interested parties believe that perpetual bonds should continue to be accounted for as bonds under SSAP No. 26R (as currently written) and reported on Schedule D as hybrids.

In the discussion below, we provide further clarification of relevant attributes and industry practice associated with perpetual bonds, and outline several key reasons why interested parties do not agree that perpetual bonds should be reported the same as perpetual preferred stock (i.e., at fair value with periodic changes in fair value reported in unrealized gains and losses); rather, we believe accounting for all bonds, including perpetual bonds, as prescribed in SSAP 26R, as currently written, is appropriate.

The following are key reasons why interested parties believe perpetual bonds are substantially the same as other bonds, versus perpetual preferred stock:

- **Amortization of premiums and accretion of discounts:** The proposal notes that due to a lack of a maturity date, insurers do not accrete discounts or amortize premiums on perpetual bonds. However, many insurers in the interested parties group do have methodologies to amortize premiums and accrete discounts. Most often, companies amortize premiums to the call date for the bonds (i.e., apply yield to worst) and accrete discounts to a date that is far into the future (i.e., consistent with how Bloomberg treats such bonds when quoting market yields for the bonds). Investors believe this approach to estimating a yield is a reasonable depiction of the true yield expected to be earned on the investments.

- **Call date is a pseudo-maturity date:** The capital markets and investors (including insurers) consider the call date in the bonds to be a pseudo-maturity date. That is, it is expected that the perpetual bonds will be called on the call date. Oftentimes insurers price the bonds to the call date. Many times, the bonds have step-up coupon provisions at the call date, which provides an incentive for the issuer to call the bonds, or there are other reasons why there is a market compulsion for the issuer to call such bonds on the call date. The expectation that the bonds will be called is one of the key characteristics that results in many companies reporting such bonds as fixed income for US GAAP reporting purposes. In the rare cases where perpetual bonds do not have callability, all other characteristics are the same as those bonds with callability (e.g., capital markets consider them bonds, the trade like bonds, the investment objective is the same as bonds, etc.) and thus interested parties believe they should be reported the same as all other bonds.

- **How perpetual bonds trade in the market:** The market's view of the call provisions on perpetual bonds, as outlined above, is a key reason (among others) that perpetual bonds trade in the capital markets like bonds. As a result, these instruments are more sensitive to interest rate movements, are generally priced like bonds (inclusive of accrued interest) and are quantified and measured in terms of par value and not in terms of shares of stock.

- **US GAAP reporting:** Those insurers who invest in perpetual bonds generally report them as fixed income for US GAAP reporting purposes. Some companies evaluate the investment characteristics (per the guidance in Topic 815) to determine if the characteristics such as redemption rights, voting rights, conversion rights, dividend rights, and protective covenants are more debt like or equity like when determining the appropriate reporting. Additionally, companies consider how the investments are viewed in the capital markets. The analysis performed generally concludes that perpetual bonds are more bond like than equity like. When classified as bonds, they are evaluated for impairment like any other bond (e.g., insurers assess the ability for the issuer to pay interest and principal).

- **Investment strategy for perpetual bonds:** Insurers invest in perpetual bonds for their fixed cash flows (interest and expected return of principal when called by the issuer) and not for market appreciation. Like other bonds, the expected fixed cash flows are used for cash flow matching to insurance liabilities. Many perpetual bonds have a fixed coupon and if not called the coupon adjusts to a current floating rate plus a spread (e.g., that is stepped-up significantly from original issuance spreads). Also, when insurers manage their investment portfolios (e.g., investment allocations, assessing risks, etc.), perpetual bonds are classified as bonds and not equities.

- **Monetization of perpetual bonds:** A key reason equity securities are reported at fair value for Statutory reporting purposes is because there is no certainty in the cash flows they generate and return to the investor (return of principal and return on investment), which includes dividend payments. Additionally, the return of an investor's original investment can only be monetized by selling the equity security at fair value. As a result, fair value is an important measurement when considering the expected return to the investor. Regarding perpetual bonds, the opposite situation exists. The cash flows have a much higher level of certainty (interest to be paid for the life of the investment is contractual and does not require the issuer's board declaring a dividend like a preferred stock and the return of par at the call date) like any other bond. As a result, similar to other bonds, we do not believe fair value is a relevant measurement principle for such investments for Statutory reporting purposes.

Interested parties agree that perpetual bonds do have some unique characteristics that are similar to equity securities; however, their characteristics are predominantly those consistent with bonds (e.g., investments are generally priced, traded, and utilized by insurers in the same manner as other bonds). We believe accounting for all bonds, including perpetual bonds, as prescribed in SSAP No. 26R, as currently written, is appropriate. We have not identified any justification to report and account for perpetual bonds differently from other bonds. However, given they may contain some equity-like characteristics, we believe they should continue to be reported as hybrid investments in Schedule D, as established in 2008-06BWG's hybrid discussions. This would provide transparency to regulators as to their existence in insurers' investment portfolios.

Ref #2020-23: Update to Leasehold Improvements

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*, to allow the amortization of leasehold improvements to match the associated lease term, which is guidance that agrees with U.S. GAAP, ASC Topic 842.

Interested parties support this proposal.

Ref #2020-24: Accounting and Reporting of Credit Tenant Loans

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed this agenda item with a request for comments on the two general options for the accounting treatment of credit tenant loans (CTL). Notification will also be sent to the Valuation of Securities (E) Task Force of this agenda item in response to their referral. With this notification, NAIC staff will request further confirmation that a SVO-Listing could be developed to capture the CTLs that meet the SVO's structural and legal analysis and possess bond characteristics.

Interested parties' response – please see separate letter

Ref #2020-25EP: Editorial and Maintenance Update

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed editorial revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairments of Asset* and *SSAP No. 62R—Property and Casualty Reinsurance*.

Interested parties have no comments on this item.

Ref #2020-26: ***ASU 2015-10, Technical Corrections & Improvements***

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2015-10, Technical Corrections & Improvements* as not applicable to statutory accounting.

Interested parties have no comments on this item.

Ref #2020-27: ***ASU 2019-09, Financial Services – Insurance; Effective Date***

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2019-09—Financial Services – Insurance* as not applicable to statutory accounting.

Interested parties have no comments on this item.

Ref #2020-28: ***ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815***

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to reject *ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815* for statutory accounting. The revisions note rejection are proposed to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* and *SSAP No. 86—Derivatives*.

Interested parties have no comments on this item.

Ref #2020-29: ***ASU 2020-05—Effective Dates for Certain Entities***

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities* as not applicable to statutory accounting.

Interested parties have no comments on this item.

Ref #2020-30: Premium Refunds and Other Adjustments

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed the agenda item with a request for comments/input on the issues described in the proposal. NAIC staff was also directed to draft guidance to address premium refunds and other policy adjustments for both property and casualty and accident and health lines of business.

Comments were requested on the following:

1. NAIC Staff's preliminary recommendation is that the proposed guidance should follow the existing principles of adjustable premium and shall be recognized as adjustments to premium based on experience to date.

2. Examples of existing products that have premium adjustments for reasons other than the existing guidance or how the existing guidance can be expanded.

3. If accounting treatment that is being applied is different from premium adjustments, please provide overview of key attributes.

Interested parties offer the following comments:

1. We agree that the proposed guidance should treat discretionary returns of premium as a reduction of premium, consistent with the conclusion reached in Issue 1 of INT 20-08: COVID-19 Premium Refunds, Limited-Time Exception, Rate Reductions and Policyholder Dividends (paragraphs 8 through 11). There is a difference, however, between contracts that contain loss-sensitive terms and guaranteed cost contracts that become subject to a discretionary return of premium by the insurer. For loss-sensitive contracts, the adjustment to premium is based on loss experience in a prior period and is estimated each period with a true-up recorded in the current period. For guaranteed-cost contracts where the insurer gives policyholders a discretionary refund of premium or credit for future premium periods, the adjustment should be recognized in the period in which the refund or credit is applicable. For example, a premium refund or credit for previous months should be recognized as a true-up in the current period (similar to a loss sensitive contract); however, a premium refund or credit applicable to future periods should be recognized in earned premium in those future periods.

   Specifically, with regard to health insurance, the SSAPs could be made clearer through some examples as illustrated below as an addition to paragraph 4 of SSAP No. 54R. While many examples can be cited, these are just a few to illustrate how examples in the SSAPs can enhance more uniform understanding of the principles involved. Interested parties would be glad to work with SAPWG and NAIC staff in developing a set of examples that is brief, appropriate, and illustrative in achieving that objective.

Suggested revisions to Paragraph 4 of SSAP No. 54-R:

4. Premium income shall be reduced for premiums returned and for allowances to industrial policyholders for the direct payment of premiums. For example:

a. For refunds or reductions in premiums under the terms of the policyholder or group contract refer to:
   1. Contracts Subject to Redetermination – Paragraphs 27-32 below
   2. Retrospectively Rated Contracts - SSAP No. 66

b. For voluntary refunds or reductions in premiums that are not specified by the terms of the policyholder or group contract, the timing of the recognition of the payment (or credit to gross billed premiums) is based on when the corresponding gross premium is or has been earned. To illustrate (not intended to be an exhaustive list):
   1. For premium reductions pertaining to previous or expired periods of coverage, the full amount of the reduction is recognized immediately.
   2. For premium reductions that relate to the current month's coverage, the reduction is recognized in the current month.
   3. For reductions that relate to subsequent months' coverage, the reduction will be recognized in the month to which it pertains so as to match the recognition of the reduction with that of the gross premium and coverage period to which it pertains.

2. Interested parties are not aware of products that have premium adjustments for reason that are not covered by existing guidance in the SSAPs.

   With regard to health insurance, to the extent such situations exist (e.g., regarding some wellness programs), they are adequately covered by the text in SSAP Nos. 54R and 66 pertaining to adjustments to premiums under the terms of the policyholder or group contract, and/or are clearly immaterial.

3. Consistent with the conclusion reached in Issue 4 of INT 20-08, a dividend that is issued on participating policies or issued by non-stock companies such as mutual entities or other corporate entity types in which profits are shared with policyholders should be accounted for as a dividend rather than a return of premium. We are not aware of other situations where such payments or credits are being applied other than as premium adjustments.

Interested parties offer our assistance in developing additional guidance or in providing feedback on draft guidance.

Ref #2020-31: Early application of *SSAP No. 32R—Preferred Stock*

The Working Group voted by e-vote to move this item to the active listing, categorized as nonsubstantive, and exposed edits to *SSAP No. 32R—Preferred Stock* as detailed above. This item has a comment period deadline ending September 18, 2020.

Interested parties have no comments 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