Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:**  Update / Remove References to SVO Listings

**Check (applicable entity):**

 P/C Life Health

Modification of Existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: The Statutory Accounting Principles (E) Working Group received a referral from the Valuation of Securities (E) Task Force regarding two proposed amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual).

1. The first proposal was to rename the “U.S. Direct Obligations/Full Faith and Credit Exempt List” to the “NAIC U.S. Government Money Market Fund List.” No revisions to the *NAIC Accounting Practices and Procedures* (AP&P) *Manual* would be required, as this list is not specifically identified. (Revisions would likely be needed in the Blanks and RBC filings / instructions.)
2. The second proposal was to discontinue the “NAIC Bond Fund List.” Items which were on this list would be eligible for consideration for the “NAIC Fixed Income-Like SEC Registered Funds List.” The discontinuance of usage of the NAIC Bond Fund List will require an update in the AP&P Manual. (Although the “bond list,” this listing requires 100% government securities in the fund.)

*Edited excerpt from the VOSTF referral:*

The NAIC Bond Fund List (Bond List), published monthly by the SVO, is a list limited to funds that maintain the highest credit quality rating, maintain the highest market risk rating, and invests 100% of its total assets in U.S. Government securities along with several other restrictive criteria. Only four funds qualify for this list and only four insurers invest in any of the funds. According to the SVO, a combined exposure of $11.8 million BACV was noted in any of the four qualifying funds as of December 31, 2018. Given the limited number of insurers investing in these specific funds, the SVO proposed eliminating this list when the four funds come up for renewal in 2020. Upon renewal, the funds on the NAIC Bond Fund List would be eligible for the “NAIC Fixed Income-Like SEC Registered Funds List.” Elimination of the “bond fund list” would result in migrating these funds over to the NAIC Fixed Income-Like SEC Registered Funds List, which will be reported on Schedule D, Part 2 under *SSAP No. 30R – Unaffiliated Common Stock*.

Existing Authoritative Literature:

The Bond List is specifically noted in two SSAP’s as detailed below:

*SSAP No. 26R—Bonds*

1. Bonds shall be defined as any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payments. This definition includes:
2. U.S. Treasury securities;
3. U.S. government agency securities;
4. Municipal securities;
5. Corporate bonds, including Yankee bonds and zero-coupon bonds;
6. Convertible bonds, including mandatory convertible bonds as defined in paragraph 11.b;
7. Fixed-income instruments specifically identified:
8. Certifications of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition;
9. Bank loans issued directly by a reporting entity or acquired through a participation, syndication or assignment;
10. Hybrid securities, excluding: surplus notes, subordinated debt issues which have no coupon deferral features, and traditional preferred stocks.
11. Debt instruments in a certified capital company (CAPCO)
12. The definition of a bond, per paragraph 3, does not include equity/fund investments, such as mutual funds or exchange-traded funds. However, the following types of SVO-identified investments are provided special statutory accounting treatment and are included within the scope of this statement. These investments shall follow the guidance within this statement, as if they were bonds, unless different treatment is specifically identified in paragraphs 23-29.
13. Exchange traded funds (ETFs), which qualify for bond treatment, as identified in Part Three of the Purposes and Procedures Manual of the NAIC Investment Analysis Office and published on the SVO’s web page of www.NAIC.org. (SVO-identified ETFs are reported on Schedule D – Part 1.)
14. Bond mutual funds which qualify for the **Bond List,** as identified in Part Three of the Purposes and Procedures Manual of the NAIC Investment Analysis Office and published on the SVO’s web page of www.NAIC.org. (SVO-identified bond mutual funds are reported on Schedule D – Part 1.)

*SSAP No. 30R—Unaffiliated Common Stock*

1. Common stocks (excluding investments in affiliates) are securities which represent a residual/subordinate ownership in a corporation. This definition includes:
2. Publicly traded common stocks;
3. Common stocks that are not publicly traded; and
4. Common stocks restricted as to transfer of ownership
5. In addition, the following equity investments are captured within scope of this statement:
6. Master limited partnerships trading as common stock and American deposit receipts only if the security is traded on the New York or NASDAQ exchange;
7. Publicly traded common stock warrants;
8. Shares of SEC registered Investment Companies captured under the Investment Company Act of 1940 (open-end investment companies (mutual funds), closed-end funds and unit investment trusts), regardless of the types or mix of securities owned by the fund (e.g., bonds or stocks), except for **Bond Mutual Funds** which qualify for bond treatment, as identified in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO’s web page of *www.NAIC.org*;
9. Exchange Traded Funds, except for those identified for bond or preferred stock treatment, as identified in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO’s web page of *www.NAIC.org*; and
10. Foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction. Other foreign funds are excluded from the scope of this statement.
11. Equity interests in certified capital companies in accordance with *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)*.

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 1) *SSAP No. 26R—Bonds* and *SSAP No. 30R—Unaffiliated Common Stock* to eliminate references to the NAIC Bond Fund List (Bond List) and 2) add reference to the “NAIC Fixed Income-Like SEC Registered Funds List” in SSAP No. 30R.

Although the Working Group is recommended to proceed with exposure on this agenda item and solicit comments for consideration, final action and determination of an effective date will not occur until revisions have first been adopted by the Valuation of Securities (E) Task Force. NAIC SAPWG staff will coordinate with the VOSTF staff to stay current on their discussion and action on this item. NAIC staff also notes that referrals to the Blanks (E) Working Group and the Capital Adequacy (E) Task Force will be needed to reflect the title change in Blanks and RBC.

NAIC staff also highlights that the reference to the SVO “bond fund list” often causes confusion as this listing only includes funds with 100% of their investments in U.S. Government Securities. If the action to delete the listing does not occur at the Task Force, NAIC staff would recommend that the listing name be revised to reflect the “U.S. Government Fund” to eliminate confusion through reference as a “bond fund” listing.

**Proposed Revisions to *SSAP No. 26R—Bonds***

1. The definition of a bond, per paragraph 3, does not include equity/fund investments, such as mutual funds or exchange-traded funds. However, the following types of SVO-identified investments are provided special statutory accounting treatment and are included within the scope of this statement. These investments shall follow the guidance within this statement, as if they were bonds, unless different treatment is specifically identified in paragraphs 23-29.
2. Exchange traded funds (ETFs), which qualify for bond treatment, as identified in Part Three of the Purposes and Procedures Manual of the NAIC Investment Analysis Office and published on the SVO’s web page of www.NAIC.org. (SVO-identified ETFs are reported on Schedule D – Part 1.)

**Proposed Revisions to *SSAP No. 30R—Unaffiliated Common Stock***

1. In addition, the following equity investments are captured within scope of this statement:
2. Master limited partnerships trading as common stock and American deposit receipts only if the security is traded on the New York or NASDAQ exchange;
3. Publicly traded common stock warrants;
4. Shares of SEC registered Investment Companies captured under the Investment Company Act of 1940 (open-end investment companies (mutual funds), closed-end funds and unit investment trusts), regardless of the types or mix of securities owned by the fund (e.g., bonds or stocks).including shares of funds referenced in the “NAIC Fixed Income-Like SEC Registered Funds List” as identified in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.
5. Exchange Traded Funds, except for those identified for bond or preferred stock treatment, as identified in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO’s web page of *www.NAIC.org*; and
6. Foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction. Other foreign funds are excluded from the scope of this statement.
7. Equity interests in certified capital companies in accordance with *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)*.

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

**Status:**

On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 26R—Bonds* and *SSAP No. 30R—Unaffiliated Common Stock*, as detailed above, to eliminate references to the NAIC Bond Fund List. The revisions also add reference to the “NAIC Fixed-Income Like SEC Registered Funds List” in SSAP No. 30R. This item has a shortened comment period deadline ending May 1, 2020.

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