Financial Condition (E) Committee Technical Changes

Background Information. At the 2009 Fall National Meeting, the NAIC membership approved a new process for the final adoption of technical matters coming from the Financial Condition (E) Committee. The new process was enacted to provide these technical changes to the industry and affected parties as quickly as possible in an effort to allow them more time to modify their systems and processes for such changes.

Details of Process Adopted

1. A list of technical items (shown on the page(s) that follow) will be provided from the Financial Condition (E) Committee to the Executive (EX) Committee and Plenary within one week of the completion of the national meeting.
2. The list contains only what the Financial Condition (E) Committee considers technical and routine, and does not include items that are significant by NAIC standards (e.g., it would not include proposed model laws, model regulations or guidelines) or items considered controversial.
3. Members of the Executive (EX) Committee and Plenary have 10 days to review the attached list and voice any objection with respect to a specific item.
4. If no objections are raised on a particular item, or any of the items, each and all items will be considered adopted by the Executive (EX) Committee and Plenary, similar to the consent agenda process.
5. If there is an objection on any one or multiple items, a joint conference call of the Executive (EX) Committee and Plenary will be scheduled to address the particular item(s).
6. Items receiving no objection will be considered adopted and thus inserted into the appropriate publication and/or made available to the industry and other parties for implementation.

Request for Approval. Under the above process, the Executive (EX) Committee and Plenary members are hereby requested to review the attached list and voice any objections to a specific item(s) by May 3, 2019. Any item(s) receiving an objection will be pulled from this automatic consideration, and a conference call will be scheduled to address the issue.
The following technical items were adopted by the Financial Condition (E) Committee at the 2019 Spring National Meeting:


   - Adopted the following substantive revisions to statutory accounting guidance:
     - Issue Paper No. 160—Structured Settlements Acquired as Investments: Adopted the issue paper, which documents the substantive revisions adopted to Statement of Statutory Accounting Principles (SSAP) No. 21R—Other Admitted Assets for structured settlements. (Ref #2018-17)
     - SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments, SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities and SSAP No. 86—Derivatives: Revisions, effective Dec. 31, 2019, clarify the accounting and reporting for structured notes (Ref #2018-18). A structured note is defined as an investment that is structured to resemble a debt instrument, where the contractual amount of the instrument to be paid at maturity is at risk other than the failure of the borrower to pay the contractual amount due. Structured notes reflect derivative instruments (e.g., put options or forward contracts) that are wrapped by a debt structure. The adopted revisions include the following:
       1. SSAP No. 2R: Derivative instruments shall not be reported as cash equivalents or short-term instruments regardless of their maturity date.
       2. SSAP No. 26R: Structured notes are explicitly excluded from the scope of SSAP No. 26R.
       3. SSAP No. 43R: Structured notes that are mortgage-referenced securities are in scope of SSAP No. 43R.
       4. SSAP No. 86: Structured notes, excluding those in scope of SSAP No. 43R, are considered derivative instruments and shall be captured in scope of SSAP No. 86.
     - SSAP No. 16R—Electronic Data Processing Equipment and Software: Revisions adopt with modification Accounting Standards Update (ASU) 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract, allowing the capitalization of implementation costs from a cloud hosting service contract as nonoperating system software with amortization not to exceed five years. Adopted revisions also clarify the accounting for cloud hosting arrangements that are not service contracts. (Ref #2018-40)
     - SSAP No. 30R—Unaffiliated Common Stock: Revisions clarify that assets pledged to a Federal Home Loan Bank (FHLB) on behalf of an affiliate shall be nonadmitted pursuant to SSAP No. 4—Assets and Nonadmitted Assets, and clarify that transactions entered into on behalf of an affiliate, but that are structured to exclude the affiliate, shall be considered a related party transaction under SSAP No. 25—Affiliates and Other Related Parties. (Ref #2018-33)
     - SSAP No. 30R: Revisions explicitly capture foreign open-end fund investments in scope with a Jan. 1, 2019 effective date. The Statutory Accounting Principles (E) Working Group directed a blanks proposal to identify foreign open-end funds on the investment reporting schedule, to incorporate revisions to the Supplemental Investment Reporting Interrogatory (SIRI) to clarify what should be captured in line 2 (top 10 issuers) and to add a new disclosure for investments with fund managers. (Ref #2018-34)
     - SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses: Revisions clarify the reporting of interest on accident and health claims, with a Jan. 1, 2020, effective date, with early adoption permitted. (Ref #2018-39)
     - SSAP No. 86: Revisions add the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate and the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as U.S. benchmark rates for hedge accounting. (Ref #2018-46)
SSAP No. 92—Postretirement Benefits Other Than Pensions and SSAP No. 102—Pensions: Revisions adopt with modification the disclosure amendments in *ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans.* (Ref #2018-37)

SSAP No. 95—Nonmonetary Transactions and SSAP No. 104R—Share-Based Payments: Revisions adopt with modification *ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting*, eliminating the section for nonemployee awards and including guidance for nonemployees with the guidance for employees. (Ref #2018-35)

SSAP No. 100R—Fair Value: Revisions adopt with modification the disclosure amendments in *ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement* and clarify prior actions on U.S. generally accepted accounting principles (GAAP). (Ref #2018-36)

Appendix B—Interpretations of Statutory Accounting Principles:

1. Adopted Interpretation (INT) 19-01—Extension of Ninety-Day Rule for the Impact of California Camp Fire, Hill Fire and Woolsey Fire, to provide a temporary extension to the 90-day rule under SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers. INT 19-01 will be automatically nullified April 24, 2019. (Ref #2019-01)

2. Adopted INT 19-02—Single Security Initiative, to incorporate a limited-scope exception to SSAP No. 26R and prescribe guidance for SSAP No. 43R securities exchanged under the Freddie Mac Single Security Initiative. (Ref #2019-02)

Appendix D—Nonapplicable GAAP Pronouncements: Revisions reject the following ASUs as not applicable:

1. *ASU 2017-13, Amendments to SEC Paragraphs* (Ref #2018-41)
2. *ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (Ref #2018-42)
4. *ASU 2018-05, Amendments Pursuant to SEC Staff Accounting Bulletin No. 118* (Ref #2018-44)
5. *ASU 2018-06, Financial Services – Depository and Lending* (Ref #2018-45)

Editorial revisions detailed in Ref #2018-47EP: These revisions clarify that investments in scope of SSAP No.48—Joint Ventures, Partnerships and Limited Liability Companies are not required to complete SSAP No. 97 disclosures unless directed under SSAP No. 48.

2. Financial Condition Examiners Handbook Changes, Other Examination Tools and Related Items
   - None

3. Financial Analysis Handbook Changes and Related Items
   - None

   - None

5. Annual Statement Instructions Changes and Related Items
   - Adopted the following changes to the annual financial statement blanks and/or instructions:
     1. 2018-23BWG—Add question 34.1 and question 34.2 to the General Interrogatories, Part 2 for fraternal benefit societies only, along with instructions regarding question 34.2.
     2. 2018-24BWG—Adjust asset valuation reserve (AVR) factors in the life, accident & health/fraternal blank for those where the related risk-based capital (RBC) factors have changed due to the federal Tax Cuts and Jobs Act of 2017 (TCJA).
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- 2018-25BWG—Modify the reinsurance ceded code list in the health and life, accident & health/fraternal quarterly Schedule S to match the list used for annual financial statement reporting. Add an additional column and associated instructions for type of business ceded.

- 2018-27BWG – Add reference to reporting separate account or protected cell to the instructions for Note 5L(4). Modify the illustrations to include additional lines for separate accounts or protected cells in addition to the general account, with a notation indicating which lines apply to the general account and which lines apply to separate accounts or protected cells.

- 2018-28BWG—Add instructions to Note 9 – Income Taxes for new disclosures, Note 9H – Repatriation Transition Tax (RTT) and Note 9I – Alternative Minimum Tax (AMT) Credit. An illustration will be added for Note 9I and will be data-captured.

- 2018-29BWG—In the separate accounts blank, remove line 5, Contract Loans, from the separate accounts asset page and renumber the remaining lines.

- 2018-30BWG—Modify the instructions and illustration Note 10O – Subsidiary, Controlled or Affiliated (SCA) Loss Tracking to include references to SSAP No. 48 and SSAP No. 48 entities.

- 2018-31BWG—Add two new categories (unit investment trusts and closed-end funds) to the common stock categories on Schedule D. Add the new categories to the Summary Investment Schedule. Add definition of “unit investment trusts” and “closed-end funds” to the Investment Schedules General Instructions and modify the definition of “mutual fund.” Add categories for “unit investment trusts” and “closed-end funds” to Schedule DL, Part 1 and Part 2.

- Editorial/nonsubstantive listing


- Adopted the following amendments to the P&P Manual:
  - Revisions clarify the “stand-alone” status of the investment security component of a regulatory transaction. The amendment clarifies that a stand-alone investment security is not excluded from being designated because it has been included as a component of a regulatory transaction.
  - Revisions better identify investment securities and transactions that are not eligible for filing exemption. The guidance was moved to the beginning of the filing exempt (FE) instructions, where it would provide the best disclosure.
  - Revisions incorporate a comprehensive and uniform approach to the risk assessment of shares of funds that holds a portfolio of bonds. The amendment expands the existing framework to funds issued by U.S. Securities and Exchange Commission (SEC)-regulated investment companies organized as closed-end management companies and unit investments trusts. Also, with the revisions, private funds would still be reported as joint ventures under SSAP No. 48 and captured on Schedule BA, but would no longer be permitted the assignment of an NAIC designation through the FE process.

7. NAIC Risk-Based Capital (RBC) Formula Changes and Related Items

- Adopted the final 2018 U.S. and non-U.S. catastrophe event lists.
- Adopted the updated RBC Procedures to include procedure for referrals.
- Adopted the stop loss proposal to separate the stop loss interrogatories table into two separate tables.
- Adopted the asset concentration proposal to correct the bond and preferred stock descriptions.
- Adopted the underwriting risk factors for property/casualty RBC formula.
- Adopted the asset concentration proposal to edit the line descriptions.
- Adopted the RBC average growth calculation to address inconsistencies in the computation of selected average growth rate.

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8. Uniform Certificate of Authority Application (UCAA), Company Licensing Best Practices Handbook and Related Items
   o Adopted revisions to the Biographical Affidavit to capture subsidiary information if the affiant was employed at a holding company level.
   o Adopted changes to the corporate amendment instructions to align the instructions for all corporate amendment change types.
   o Referred amended Accreditation Part D standards to the Financial Regulation Standards and Accreditation (E) Committee.

9. NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual (ORSA Guidance Manual) and Related Items
   o None.

    o None.

11. Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions and Related Items
    o None.

12. Process for Developing and Maintaining the NAIC List of Certified Reinsurers and Related Items
    o None.

13. NAIC Enterprise Risk Report (Form F) Implementation Guide and Related Items
    o None.

    o Adopted regulator-only guidance.