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 it 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 Aug. 29, 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 Summer National Meeting:

   - Adopted the following substantive revisions to statutory accounting guidance:
     - **Statement of Statutory Accounting Principles (SSAP) No. 22—Leases**: Substantive revisions, resulting in SSAP No. 22R—Leases and corresponding Issue Paper No. 161—Leases, incorporate guidance from Accounting Standard Update (ASU) 2016-02, Leases modified to maintain the operating lease concept, with an effective date of Jan. 1, 2020. (Ref #2016-02)
     - **Issue Paper No. 162—Property and Casualty Reinsurance Credit**: Adopted Issue Paper No. 162 to document for historical purposes the revisions related to SSAP No. 62R—Property and Casualty Reinsurance adopted at the 2018 Fall National Meeting. (Ref #2017-28)
   - Adopted the following nonsubstantive revisions to statutory accounting guidance:
     - **Preamble, SSAP No. 50—Classifications of Insurance or Managed Care Contracts, SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts, SSAP No. 54R—Individual and Group Accident and Health Contracts, SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses, SSAP No. 56—Separate Accounts, SSAP No. 71—Policy Acquisition Costs and Commissions, and SSAP No. 86—Derivatives**: Revisions modify the Preamble to update applicable U.S. generally accepted accounting principles (GAAP) guidance and reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts for statutory accounting. (Ref #2019-06)
     - **SSAP No. 21R—Other Admitted Assets**: Revisions clarify that an investment captured in scope of another SSAP does not automatically become a collateral loan because it is also secured with collateral. (Ref #2018-04)
     - **SSAP No. 25—Affiliates and Other Related Parties, SSAP No. 26R—Bonds, SSAP No. 32—Preferred Stock, SSAP No. 43R—Loan-Backed and Structured Securities, and SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies**: Revisions clarify the application of SSAP No. 25, as well as a related party classification (and appropriate designation as an affiliate), when a transaction is in substance a related party (affiliate) transaction. (Ref #2019-03)
     - **SSAP No. 26R and SSAP No. 72—Surplus and Quasi-Reorganizations**: Revisions direct the initial reported value for a bond received as a property dividend or as a capital contribution. (Ref #2019-07)
     - **SSAP No. 37—Mortgage Loans**: Revisions exclude “bundled” mortgage loans from the scope of the statement and clarify requirements for participation agreements. (Ref #2018-22)
     - **SSAP No. 43R**: Revisions require securities with differing NAIC designations by lot to be reported in aggregate at the worst NAIC designation or separately by lot. (Ref #2018-03)
     - **SSAP No. 62R**: Revisions clarify the effective date of reinsurance credit guidance adopted in agenda item 2017-28, noting application to contracts in effect as of Jan. 1, 2019. (Ref #2019-11)
     - **SSAP No. 101—Income Taxes**: Revisions to the Implementation Q&A effective for financial reporting years ending Dec. 31, 2019:
       1. Updated examples and guidance in response to the federal Tax Cuts and Jobs Act (TCJA). (Ref #2019-09)
2. Clarified the admittance of deferred tax assets that can be offset by deferred tax liabilities noting that scheduling is only required to the extent that it was necessary to use the reversal patterns of deferred tax items in determining the valuation allowance. (Ref #2019-10)

- **SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities:** Revisions reduce the disclosure requirements for repurchase and reverse repurchase transactions. (Ref #2019-05)

- **Appendix D—Nonapplicable GAAP Pronouncements:** Revisions reject the following ASUs as not applicable to statutory accounting:
  1. **ASU 2015-08, Pushdown Accounting, Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115.** (Ref #2019-16)
  2. **ASU 2019-02, Entertainment, Improvements to Accounting for Costs of Films and License Agreements for Program Materials a consensus of the FASB Emerging Issues Task Force.** (Ref #2019-17)

- Adopted the following editorial revisions to statutory accounting (Ref #2019-15EP):
  1. **SSAP No. 62R:** Updated Exhibit D – Illustration of Asbestos and Pollution Counterparty Reporting Exception to match the current format of Property and Casualty Annual Statement Schedule F.
  2. **SSAP No. 63—Underwriting Pools:** Updated paragraph references to Schedule F, Part 8 to reference the current section of Property and Casualty Annual Statement Schedule F, Part 3.
  3. **SSAP No. 84—Health Care and Government Insured Plan Receivables:** Deleted the paragraph duplicating **SSAP No. 4—Assets and Nonadmitted Assets.**
  4. **SSAP No. 86:** Updated language in weather derivative exhibit to eliminate “proposed” wording.
  5. **SSAP No. 103R:** Updated the footnote regarding investments that are excluded from the wash sale disclosure.

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. **2019-02BWG** – For the VM-20 Reserves Supplement, Part 1, match the title under Part 1 to the title used in the blank. Add instructions to clarify the line reporting. Add clarifying column instructions to indicate that the due and deferred premium asset should be reported in accordance with VM-20.
  2. **2019-03BWG** – Add NAIC Designation column for use with mutual funds to the annual Schedule D, Part 2, Section 2 and modify the instructions to reflect the addition. Modify the instructions for the NAIC Designation and Administrative Symbol column for the quarterly Schedule D, Part 3 and Part 4 to reflect capturing designations for mutual funds.
  3. **2019-04BWG** – Remove the reference to “life and fraternal only” for Schedule BA General Instructions regarding investments that have the underlying characteristics of bonds or fixed instruments. Also remove the instructions reference for Schedule BA regarding the CUSIP Identification column and the NAIC Designation column. Add
additional lines to the “Fixed or Variable Interest Rate Investments That Have the Underlying Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument” and “Joint Ventures or Partnership Interests for Which the Primary Underlying Investments Are Considered to Be Fixed Income Instruments” categories to distinguish between those reviewed and approved by the Securities Valuation Office (SVO) and those that have not.

- 2019-05BWG – Add new instructions and illustration (to be data-captured) to Note 21, Other Items for life policies where the reporting entity is owner and beneficiary or has otherwise obtained rights to control the policy. The new disclosure will be Note 21I for life/fraternal and health and Note 21H for property and title.

- 2019-06BWG – Add a reference for structured settlements acquired by a reporting entity as an investment (where the company has acquired the legal right to receive payments) to the Schedule BA General Instructions in the “any other class of assets” definition.

- 2019-07BWG – Modify the instructions for Note 20, Fair Value to reflect changes adopted for SSAP No. 100R— Fair Value. These changes reflect disclosure modifications adopted from U.S. GAAP (ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement). The revisions do not change any of the disclosure templates.

- 2019-08BWG – Modify the instructions for Note 12, Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans to reflect changes adopted for SSAP No. 92— Postretirement Benefits Other Than Pensions and SSAP No. 102— Pensions.

- 2019-09BWG – Add a reference to include mortgage-referenced securities in the “U.S. Special Revenue and Special Assessment Obligations and All Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions” category in the Investment Schedules General Instructions. Also delete Note 5O, Structured Notes and modify the bond characteristics definition for Schedule D, Part 1.

- 2019-10BWG – Add instructions for determining the gain (loss) reported in column 18 and the prepayment penalty and/or acceleration fee amount in column 20 on Schedule D, Parts 4 and 5 for called bonds where consideration received is less than par.

- 2019-11BWG – Modify the instructions and table illustrations for Note 5F, Note 5G, Note 5H and Note 5I to reflect changes to SSAP No. 103R. In addition, the formatting of some tables in the illustrations were changed to fit on the page.

- 2019-12BWG – Add a code for foreign mutual funds to Schedule D, Part 2, Section 2, Column 3. Add instruction for foreign open-end investment funds to be included as mutual funds in the Investment Schedules General Instructions.

- 2019-13BWG – Modify the instructions for question 2 of the Supplemental Investment Risks Interrogatories to exclude diversified foreign mutual funds. Add disclosure of top 10 fund managers.

- 2019-14BWG – Modify the instructions and illustration for Note 8, Derivatives for disclosures adopted by SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees. Add categories for variable annuity (VA) guarantees to the instructions for Schedule DB, Part A and Part B. Add instruction and blank page for Schedule DB, Part E. Modify the instructions for the details of write-in for Line 25 of the asset page, as well as Line 25 and Line 34 of the life/fraternal liability page.

- 2019-15BWG – Modify the instructions for the Actual Cost column for Schedule D (Part 1, Part 3, Part 4 and Part 5) and Schedule DA to provide guidance for bonds that are received as a property dividend or capital contribution.

- 2019-16BWG – Add new column “YRT Mortality Risk Only” to the Analysis of Operations by Lines of Business (Summary, Individual Life and Group Life) and Analysis of Increase in Reserves During Year (Individual Life and Group Life) blank pages and instructions for yearly-renewable-term (YRT) reinsurance business where the only risk included is mortality.

- 2019-17BWG – Add two new lines for affiliated bank loans to the parent, subsidiaries and affiliates category and modify the existing lines for bank loans to reference unaffiliated for Schedule D, Part 1; Schedule DA; Schedule
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DL, Parts 1 and 2; and Schedule E, Part 2. The subtotal line for bank loans under the total bond category will be the sum of the affiliated and unaffiliated lines.

- Editorial/nonsubstantive listing.

   - Adopted the following amendments to the P&P Manual:
     - Revisions update the definition and instructions for structured notes with new guidance now referring to the definition of structured notes in SSAP No. 26R. The definition removed these instruments from being in scope of SSAP No. 26R and, with the exception of mortgage-referenced securities, SSAP No. 43R. The P&P Manual amendment also makes them ineligible for filing exemption (FE).
     - Revisions delete a stray reference to modified filing exempt (MFE), which was previously deleted in Part 6.

7. **NAIC Risk-Based Capital (RBC) Formula Changes and Related Items**
   - Adopted the electronic capitation tables proposal.
   - Adopted the underwriting risk line 1 factors.
   - Adopted the affiliated investment instructions.
   - Adopted the life and fraternal combination blanks proposal.
   - Adopted the interest rate risk and market risk proposal.

8. **Uniform Certificate of Authority Application (UCAA), Company Licensing Best Practices Handbook and Related Items**
   - None.

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

    - None.

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

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

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

14. **Troubled Insurance Company Handbook Changes and Related Items**
    - None.