

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 Monday July 13, 2020. Any item(s) receiving an objection will be pulled from this automatic consideration, and a conference call will be scheduled to address the issue.

Action Taken During July 1, 2020, Conference Call

Date Released to Executive (EX) Committee and Plenary Members:

Thursday, July 2, 2020

Objections Due from Executive (EX) Committee and Plenary Members:

Monday, July 13, 2020

The following technical items were adopted by the Financial Condition (E) Committee during its July 1, 2020, conference call:

1. Accounting Practices and Procedures Manual (AP&P Manual) Changes and Related Items

- Adopted the following substantive revisions to statutory accounting guidance:
 - *Statement of Statutory Accounting Principle (SSAP) No. 105R—Working Capital Finance Investments and Issue Paper No. 163: Working Capital Finance Investments Updates*: Revisions incorporate seven industry-requested modifications to the working capital finance investments (WCFI) program requirements. (Ref #2019-25)
- Adopted the following nonsubstantive revisions to statutory accounting guidance:
 - *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*: Revisions incorporate principle concepts that will restrict the classification of “rolling” related party or affiliated investments as cash equivalents or short-term investments. The investment schedule will identify investments (or substantially similar investments) that remain on the short-term schedule for more than one consecutive year. (Ref #2019-20)
 - *SSAP No. 2R*: Revisions reflect that certain cash pools meeting defined criteria shall be reported as cash equivalents. (Ref #2019-42)
 - *SSAP No. 3—Accounting Changes and Corrections of Errors and SSAP No. 51R—Life Contracts*: Revisions specify that changes as a result of VM-21, Requirements for Principle-Based Reserves for Variable Annuities, optional phase-in requirements shall be disclosed as a change in valuation basis, with additional disclosures regarding the phase-in period beginning Jan. 1, 2020. (Ref #2019-47)
 - *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Revisions expand guidance regarding financial guarantees and the use of the equity method for when losses exceed the subsidiary, controlled and affiliated entity’s (SCA’s) equity value. The reported equity losses of an SCA would not go negative (thus stopping at zero); however, the guaranteed liabilities would be reported to the extent that there is a financial guarantee or commitment. (Ref #2018-26)
 - *SSAP No. 5R, SSAP No. 72—Surplus and Quasi-Reorganizations, and SSAP No. 86—Derivatives*: Revisions reject *Accounting Standards Update (ASU) 2017-11, Accounting for Certain Financial Instruments with Down Round Features; Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception* in SSAP No. 86 and incorporate guidance into SSAP No. 5R and SSAP No. 72, requiring issued, free-standing financial instruments with characteristics of both liability and equity to be reported as a liability to the extent that the instrument embodies an unconditional obligation of the issuer. (Ref #2019-43)
 - *SSAP No. 25—Affiliates and Other Related Parties*: Revisions data-capture existing disclosures, which are currently completed in a narrative format. (Ref #2019-33)
 - *SSAP No. 26R—Bonds*: Revisions clarify that the assessment of an other-than-temporary impairment (OTTI) shall be based on modified contract terms. The revisions provide consistency with guidance in *SSAP No. 36R—Troubled Debt Restructuring* and *SSAP No. 103R*. (Ref #2020-14)
 - *SSAP No. 41R—Surplus Notes*: Revisions require disclosures of surplus notes that are structured in a manner in which cash-flow exchanges have been reduced or eliminated. (Ref #2019-37)
 - *SSAP No. 47—Uninsured Plans*:
 1. Revisions reject *ASU 2016-20, Technical Corrections & Improvements to Topic 606, Revenue from Contracts with Customers* in SSAP No. 47. (Ref #2020-08)
 2. Revisions reject *ASU 2018-18, Collaborative Arrangements (Topic 808)* in SSAP No. 47. (Ref #2020-09)

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- SSAP No. 51R, SSAP No. 56—*Separate Accounts* and SSAP No. 61R—*Life, Deposit-Type and Accident and Health Reinsurance*: Revisions: 1) ensure that separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures; 2) correct an identified inconsistency in one of the new disclosures regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%; and 3) add a cross reference from SSAP No. 56 to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R, as the disclosures include separate account products. (Ref #2019-35)
- SSAP No. 51R and SSAP No. 52—*Deposit-Type Contracts*: Revisions add a footnote to aggregate deposit-type contracts captured in annual statement *Exhibit 5 – Life Contracts*. (Ref #2019-08)
- SSAP No. 53—*Property and Casualty Contracts—Premiums*: Revisions clarify that the installment fee guidance should be narrowly applied. (Ref #2019-40)
- SSAP No. 55—*Unpaid Claims, Losses and Loss Adjustment Expenses*: Revisions emphasize existing guidance that loss and loss adjusting expense liabilities are established regardless of payments to third parties (except for capitated health claim payments). (Ref #2018-38)
- SSAP No. 62R—*Property and Casualty Reinsurance*: Revisions add disclosure for reinsurers from reciprocal jurisdictions. (Ref #2019-48)
- SSAP No. 97: Revisions clarify that a more-than-one holding company structure is permitted for look-through if each of the holding companies within the structure complies with the look-through requirements. (Ref #2019-32)
- SSAP No. 101—*Income Taxes*: Revisions reject *ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit*, as statutory accounting requires immediate recognition of unrecognized tax benefits through current income tax expense. (Ref #2019-45)
- *Appendix A—Excerpts of NAIC Model Laws: Appendix A-001, Investments of Reporting Entities*: Revisions add “Total Valuation Allowance” to Appendix A-001, Section 3, Summary Investment Schedule. (Ref #2020-07)
- *Appendix B—Interpretations of Statutory Accounting Principles*:
 1. *Interpretation (INT) 20-01: Reference Rate Reform*: Provides optional guidance, allowing for the continuation of certain contracts that are modified in response to *ASU 2020-04, Reference Rate Reform*. Additionally, provides waivers from derecognizing hedging transactions and exceptions for assessing hedge effectiveness as a result of transitioning away from certain interbank offering rates. (Ref #2020-12 and INT 20-01)
 2. *INT 20-02: Extension of Ninety-Day Rule for the Impact of COVID-19*: Provides an optional extension of the 90-day rule before not admitting premium receivables and receivables from non-government uninsured plans in response to COVID-19. (INT 20-02)
 3. *INT 20-03: Troubled Debt Restructuring Due to COVID-19*: Clarifies that a modification of mortgage loan or bank loan terms, in response to COVID-19, shall follow the provisions detailed in the April 7, 2020, “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus,” and the provisions of the federal Coronavirus Aid, Relief, and Economic Security Act (CARES) in determining whether the modification shall be reported as a troubled debt restructuring. (INT 20-03)
 4. *INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19*: Provides limited time exceptions to defer the assessment of impairment for certain bank loans, mortgage loans and investments that predominantly hold underlying mortgage loans, which are affected by forbearance or modifications in response to COVID-19. (INT 20-04)
 5. *INT 20-05: Investment Income Due and Accrued*: Provides temporary exceptions for the assessment of collectability for specific investments, as well as exceptions on the nonadmittance of investment income due and accrued that becomes more than 90 days past due in response to COVID-19. (INT 20-05)
 6. *INT 20-06: Participation in the 2020 TALF Program*: Provides guidance for reporting entities that participate as a direct borrower or material investor in the 2020 Term Asset-Backed Securities Loan Facility (TALF). This guidance permits direct borrowers to admit securities pledged to the TALF program; although, the TALF program does not permit substitution of pledged assets if other admittance criteria is met. (INT 20-06)
 7. *INT 20-07: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19*: Provides temporary practical expedients in assessing whether modifications in response to COVID-19 are insignificant under

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SSAP No. 36R and whether a modification shall be considered an exchange under SSAP No. 103R. (INT 20-07)

- *Appendix D—Nonapplicable GAAP Pronouncements*: Revisions reject the following ASUs as not applicable to statutory accounting:
 1. *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities* (Ref #2019-46)
 2. *ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topic 605 and Topic 606* (Ref #2020-10)
 3. *ASU 2017-14, Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topic 842)* (Ref #2020-11)
- Adopted the following editorial revisions to statutory accounting:
 1. *SSAP No. 21R—Other Admitted Assets*: Removes the excerpts from *SSAP No. 4—Assets and Nonadmitted Assets* regarding the definition and accounting treatment for admitted assets. (Ref #2020-06EP)
 2. *SSAP No. 51R*: Updates various paragraph references, requiring that changes in valuation basis be consistent with the originally adopted language in *Issue Paper No. 154—Implementation of Principle Based Reserving, Exhibit A*. (Ref #2020-06EP)
 3. *SSAP No. 62R*: Revisions update references in Exhibit A – Implementation Questions and Answers and paragraph 85 to match the current format of property casualty annual statement Schedule F – Reinsurance. (Ref #2019-44EP)
 4. Various other SSAPs: Revisions revise all references to the annual statement instructions for consistency and combine life and fraternal statement references. (Ref #2019-44EP)

2. *Financial Condition Examiners Handbook Changes, Other Examination Tools and Related Items*

- None

3. *Financial Analysis Handbook Changes and Related Items*

- None

4. *Implementation Guide for the Annual Financial Reporting Model Regulation (#205) Changes and Related Items*

- None

5. *Annual Statement Instructions Changes and Related Items*

- Adopted the following changes to the annual financial statement blanks and/or instructions:
 - 2019-25BWG – Modify the instruction for Column 10 (Schedule F, Part 3 – Property and Schedule F, Part 2 – Life/Fraternal Workers’ Compensation Carve-out supplement) to remove instruction to exclude adjusting and other reserves from the column and add instruction to include along with the defense and cost containment reserves. Add a new instruction for Column 12 for the same schedules. Add crosschecks to Schedule P, Part 1.
 - 2019-28BWG – Modify the instruction for Supplemental Investment Risk Interrogatories Lines 13.02 through 13.11 clarifying when to identify the actual equity interests within a fund and aggregate those equity interests for determination of the ten largest equity interests.
 - 2019-29BWG – Modify the instruction and blank for Supplemental Investment Risk Interrogatories Question 14.01.
 - 2019-30BWG – Add a category and instructions for Reciprocal Jurisdiction Companies in Schedule S for the life/fraternal and health blanks and to Schedule F for the property and title blanks. Add a list of identification numbers in instruction to Schedule Y, Part 1A; Schedule Y, Part 2; and Schedule D, Part 6, Section 1 for Reciprocal Jurisdiction Companies. Add a reference to Reciprocal Jurisdiction Companies in the Trusteed Surplus Statement instructions for life/fraternal, health and property statements.
 - 2020-01BWG – Add crosschecks to Lines 13 and 14 of the Exhibit of Premiums, Enrollment and Utilization (State Page) to Lines 10 and 11 of the Underwriting and Investment Exhibit, Part 1. Add crosschecks to Lines 9, 10 and 11 of the Underwriting and Investment Exhibit, Part 1 and Schedule T, Line 61.

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- 2020-03BWG – Modify the instruction and illustration for 13(11) to the Notes to Financial Statement. Change the numbering from 1 through 13 to A through M to reflect the disclosure addition for SSAP No. 41R being adopted by the Statutory Accounting Principles (E) Working Group and correct the instruction.
- 2020-04BWG – Modify the instruction and illustration for Note 23A – Unsecured Reinsurance Recoverables to reflect the disclosure addition for SSAP No. 62R being adopted by the Statutory Accounting Principles (E) Working Group.
- 2020-05BWG – Modify the instruction and illustration for Note 2 – Accounting Changes and Correction of Errors to reflect the disclosure addition for SSAP No. 3 and SSAP No. 51R being adopted by the Statutory Accounting Principles (E) Working Group.
- 2020-07BWG – Add new disclosure Note 23 – Reinsurance for reinsurance credit (23H – Life/Fraternal, 23E Health and 23K Property) to reflect the disclosure additions for SSAP No. 61R adopted by the Statutory Accounting Principles (E) Working Group.
- 2020-08BWG – Add a disclosure instruction for 10C to the Notes to Financial Statement for related party transactions not captured on Schedule Y to reflect the disclosure addition for SSAP No. 25 being adopted by the Statutory Accounting Principles (E) Working Group. Combine existing 10C into 1B instructions and illustration narrative.
- 2020-09BWG – Modify the Annual Statement Instructions for Schedule F, Part 3 to reflect the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified, and reciprocal reinsurance.
- 2020-10BWG – Revise the column 10 header in the Variable Annuities Supplement blank to be Contract Level Reserves Less Cash Surrender Value. Revise the line descriptions in Lines 1 through 3 in the footer and add a line for the Reserve Credit from Other Reinsurance and for Post-Reinsurance Ceded Aggregate Reserve. Adjust the instructions to correspond with changes made to the blanks as well as changes in the 2020 *Valuation Manual* for the new Variable Annuities Framework.
- 2020-11BWG – For the VM-20 Reserves Supplement Blank, split Part 1 into Part 1A and Part 1B. For Part 1A: change the description header for column 3 to “Due and Deferred Premium Asset” to match the instructions. Add “XXX” in the two places needed to indicate that a due and deferred premium asset does not need to be reported in the lines shown for Total Reserves. Change the reporting units for all columns to be in dollars rather than in thousands. Expand all columns to allow room for a number as large as 999,999,999,999. Change the product labels for clarity. For Part 1B: change the reporting units for the reserve columns to be in dollars rather than in thousands. Expand the reserve columns to allow room for a number as large as 999,999,999,999. Expand the face amount columns to allow room for a number as large as 9,999,999,999. Change the product labels for clarity. Remove Part 2 and re-number the remaining Parts. Adjust the instructions according to the changes made to the blanks. Clarify instructions and add examples for Parts 1A and 1B.
- 2020-12BWG – The proposal will require appointed actuaries to attest to meeting Continuing Education (CE) requirements and participate in the CAS/SOA CE review procedures, if requested.
- 2020-13BWG – Remove Line 24.04 from the General Interrogatories, Part 1 and renumber remaining lines for Interrogatory Question 24. Modify Lines 24.05 and 24.06 to require reporting amounts for conforming and non-conforming collateral programs.
- 2020-14BWG – Modify the columns and rows on the blank pages for the Long-Term Care Experience Reporting Forms 1 through 5 and make appropriate changes to the instructions for those forms.
- 2020-15BWG – Contains a new Private Flood Insurance Supplement collecting residential and commercial private flood insurance data and revisions to the Credit Insurance Experience Exhibit (CIEE) to collect lender-placed flood coverages.
- 2020-16BWG – Modify Questions 3.1 and 3.2 of General Interrogatories Part 2 and provide instructions for the questions.
- 2020-17BWG – Adjust the AVR presentation to include separate lines for each of the expanded bond designation categories.
- 2020-18BWG – Clarify the instructions to indicate which funds reported on Schedule D, Part 2, Section 2 (annual filing) and Schedules D, Part 3 and 4 (quarterly filing) must have an NAIC Designation, NAIC Designation Modifier, and SVO Administrative Symbol. Modify the reference to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* found in the following investment instructions.

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- 2020-19BWG – Add a code of “%” to the code column for all investments which have been reported Schedule DA, Part 1 and Schedule E, Part 2 for more than one consecutive year. Add certification to the General Interrogatories, Part 1 inclusion of these investments on Schedule DA, Part 1 and Schedule E, Part 2 (SAPWG 2019-20).
- 2020-20BWG – For Schedule D, Part 1, add code “10” to Column 26 – Collateral Type for ground lease financing. Renumber “Other” code to 11.
- 2020-21BWG – Add new Line 4.05 for valuation allowance for mortgage loans to the Summary Investment Schedule and renumber existing Line 4.05 to 4.06. Modify the instructions to include a crosscheck for new Line 4.05 back to Schedule B – Verification Between years. Clarify the instructions for 4.01-4.04 to explicitly show crosschecking to Column 8 of Schedule B, Part 1.
- 2020-23BWG – Add footnote to Exhibit 5 (life/fraternal & health – life supplement) and Exhibit 3 separate accounts to disclose cases when a mortality risk is no longer present or a significant factor – i.e. due to a policyholder electing a payout benefit (SAPWG 2019-08).
- Adopted its editorial listing.

6. *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) and Related Items*

- Adopted the following amendments to the P&P Manual:
 - Amendment to reflect the U.S. Securities and Exchange Commission’s (SEC) adoption of a new rule to modernize regulation of exchange-traded funds (ETFs)
 - Amendment to map financially modeled RMBS/CMBS security NAIC designations to NAIC designation categories, including mapping the zero-loss bonds to the 1.A NAIC designation category.
 - Amendment to the P&P Manual for principal protected securities (PPS), with an updated description, definition and instructions; removing these securities from FE eligibility; and requiring all PPS, including those currently designated under the FE process, to be submitted to the Securities Valuation Office (SVO) for review under their Subscript S authority beginning Jan. 1, 2021, and filed with the SVO by July 1, 2021, if previously owned.

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

- Adopted the 2019 Catastrophe Events List.
- Adopted the Bond Designation structure for all RBC formulas.
- Adopted proposal 2019-11-P (Clarification to Instructions Regarding Lloyd’s of London) and the 2019 reporting guideline.
- Adopted Proposal 2019-13-L to add a charge for Longevity Risk for Life /Fraternal.
- Adopted Proposal 2020-05CA (Table of Contents and Heading Modifications to RBC Instructions).
- Adopted Proposal 2020-06-L (Longevity Risk Factors and Instructions).
- Adopted Proposal 2018-19-P (Modified Instructions for Uncollateralized Reinsurance Recoverables).
- Adopted Proposal 2020-01-P (P/C Line 1 Premium and Reserve Factors).

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.

10. *Receivers Handbook for Insurance Company Insolvencies and Related Items*

- None

11. Process for *Evaluating Qualified and Reciprocal Jurisdictions* and Related Items

- None.

12. NAIC Enterprise Risk Report (Form F) Implementation Guide and Related Items

- None.

13. *Troubled Insurance Company Handbook* Changes and Related Items

- None.

14. Risk Retention Group Regulatory Tools and Related Items

- None