

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 31, 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 2020 Virtual Summer National Meeting

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

August 20, 2020

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

August 31, 2020

The following technical items were adopted by the Financial Condition (E) Committee during the 2020 Virtual Summer National Meeting:

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 Principles (SSAP) No. 32R—Preferred Stock*: Adopted a substantively revised SSAP No. 32R and corresponding *Issue Paper No. 164—Preferred Stock*, which updates the definitions, measurement and impairment guidance for preferred stock pursuant to the investment classification project. Revised SSAP No. 32R is effective Jan. 1, 2021. (Ref #2019-04)
 - *SSAP No. 106—Affordable Care Act Section 9010 Assessment*: Revisions supersede SSAP No. 106 and nullify *Interpretation (INT) 18-02: ACA Section 9010 Assessment Moratoriums*. (Ref #2020-05)
- Adopted the following nonsubstantive revisions to statutory accounting guidance:
 - *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*: Revisions update the reporting line for qualifying cash pools and make other clarifying edits. (Ref #2020-16EP)
 - *SSAP No. 26R—Bonds* and *SSAP No. 30R—Unaffiliated Common Stock*: Revisions eliminate references to the “NAIC Bond Fund List” (Bond List) in SSAP No. 26R and add reference to the “NAIC Fixed Income-Like SEC Registered Funds List” in SSAP No. 30R. (Ref #2020-01)
 - SSAP No. 26R: Revisions clarify that the accounting and reporting of investment income and capital gain/loss, due to the early liquidation, either through a called bond or a tender offer, shall be similarly applied. This adoption has a Jan. 1, 2021, effective date with early adoption permitted. (Ref #2020-02)
 - *SSAP No. 51R—Life Contracts*, *SSAP No. 52—Deposit-Type Contracts*, and *SSAP No. 54R—Individual and Group Accident and Health Contracts*: Revisions specify that voluntary decisions to choose one allowable reserving methodology over another, which requires commissioner approval under the *Valuation Manual*, shall be reported as a change in valuation basis. (Ref #2020-04)
 - *SSAP No. 68—Business Combinations and Goodwill*: Revisions add disclosure elements for reported goodwill, and they will be effective for the 2021 reporting year to correspond with blanks changes. (Ref #2020-03)
 - *SSAP No. 86—Derivatives*: Revisions ensure reporting consistency in that derivatives are reported “gross”; i.e., without the inclusion of financing components. Additionally, amounts owed to/from the reporting entity from the acquisition or writing of derivatives shall be separately reflected. The concepts are consistent with existing statutory accounting guidelines, but the revisions clarify the guidance and improve uniform application. The revisions have an effective date of Jan. 1, 2021. (Ref #2019-38)
 - *Appendix B—Interpretations of Statutory Accounting Principles*:
 - *Interpretation (INT) 20-08: COVID-19 Premium Refunds, Limited-Time Exception, Rate Reductions and Policyholder Dividends*: Establishes guidance on how to account for premium refunds, rate reductions and policyholder dividends in response to decreased insured activity related to COVID-19. With regard to premium refunds that are outside of policy terms, the interpretation identifies that these shall be reported as a reduction of premium (and not as an expense) unless specific criteria is met. For situations in which premium refunds are reported as an expense (or in any way that does not reflect a reduction of premium), the interpretation requires disclosure in Note 1 of the financial statements. The interpretation also directs an aggregate disclosure of the full impact from COVID-19. This interpretation was modified from its original adoption to reflect the direction provided by the Financial Condition (E) Committee during its July 1 conference call.

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- *INT 20-09: Basis Swaps as a Result of the LIBOR Transition:* Basis swaps are compulsory derivatives issued by central clearing parties (CCPs) in response to the market-wide transition away from the London Interbank Offered Rate (LIBOR). The interpretation directs that the basis swaps be reported as "hedging - other" and at fair value, thus qualifying for admittance. To be considered or reported as an "effective" hedging, the instrument must qualify as a highly effective hedge under SSAP No. 86.

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*

- None.

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 for technical NAIC Designation Category Corrections.
 - Amendment to rename the "U.S. Direct Obligations/Full Faith and Credit Exempt List" as the "NAIC U.S. Government Money Market Fund List" and discontinue the "NAIC Bond Fund List."
 - Amendment to map short-term credit rating provider (CRP) ratings to NAIC Designation Categories.
 - Amendment to add supranational entities filed with the Securities Valuation Office (SVO) to the Sovereign NAIC Designation Equivalent List.

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

- Adopted the edits to the C-3 RBC instructions for 2020.

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*

- Adopted revised guidance in Chapters 3 and 10 to address federal taxes and federal releases.

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 (RRG) Regulatory Tools and Related Items*

- None.