Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** SSAP No. 30R – FHLB Disclosure – Blanks Referral

**Check (applicable entity):**

 P/C Life Health

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

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: *SSAP No. 30R—Unaffiliated Common Stock* directs the accounting and reporting of capital stock held in Federal Home Loan Banks (FHLB). As holding capital stock in a FHLB is a requirement for FHLB borrowing, the disclosure requirement for said borrowings is also detailed in SSAP No. 30R - regardless of if the reporting entity classifies the borrowings as debt pursuant to *SSAP No. 15—Debt and Holding Company Obligations* or as a funding agreement per *SSAP No. 52—Deposit-Type Contracts.* (Note: if the debt is classified as a funding agreement, SSAP No. 52 directs reporting entities to SSAP No. 30 for applicable disclosure requirements).

If the debt is classified as a funding agreement within the scope of SSAP No. 52, its applicable activity is reported in *Exhibit 7 – Deposit-Type Contracts*. However, Exhibit 7 includes columnar reporting of various deposit-type contracts, including guaranteed interest contracts (GIC), annuities certain, supplemental contracts, etc. Due to the varied nature of reporting based on policy forms, FHLB borrowings classified as a deposit-type contract and reported on Exhibit 7 are not readily identifiable to financial statement users. While statutory accounting revisions are not proposed, this agenda item has been drafted to document a referral to the Blanks (E) Working Group regarding the specific identification of FHLB borrowings, which have been classified as funding agreements reported on Exhibit 7.

Existing Authoritative Literature: All applicable SSAP No. 30R references for the accounting and reporting of FHLB capital stock as well as the disclosure requirements of FHLB borrowings have been included in this section. Please note that for brevity, applicable footnotes have not been included.

### FHLB Capital Stock

### FHLB capital stock is held by reporting entities that are members of an FHLB. Each reporting entity must acquire FHLB capital stock for membership and maintain capital stock holding sufficient to support its business activity (borrowings) in accordance with the respective FHLB’s capital plan. The price of FHLB capital stock cannot fluctuate, and all FHLB capital stock must be purchased, repurchased or transferred at its par value. FHLB capital stock is restricted for redemption in accordance with the FHLB capital plan and shall be coded as restricted within the financial statements (e.g., investment schedules and general interrogatories).

### Acquisition of FHLB capital stock allows members to conduct business activity (borrowings) from an FHLB. The amount of capital stock acquired determines the reporting entity’s eligible borrowing amount. At a minimum, all borrowings from an FHLB (regardless of structure) must also be fully collateralized in accordance with the FHLB capital plan, which determines the amount of collateral required by type of pledged instrument. Collateral pledged to an FHLB shall be coded as restricted within the financial statements (e.g., investments schedules and general interrogatories). Collateral pledged to an FHLB by a reporting entity FHLB member is considered an admitted asset if all of the conditions in paragraphs 15.a. through 15.d. are met:

### The asset would have been admitted under SSAP No. 4;

### The pledging insurer continues to receive the income on the pledged collateral;

### The pledging insurer can remove and substitute other securities with little or advance notice to the FHLB as long as the insurer complies with related investment quality and market value provisions; and

### There has been no uncured default or event to indicate an impairment or loss contingency for the pledged assets.

### The guidance in paragraph 14 and paragraph 15 is specific for reporting entities that are FHLB members. A reporting entity that engages with an FHLB through an “affiliate arrangement” (meaning an affiliate of the reporting entity is the FHLB member), is not considered an FHLB member. In those situations, any FHLB capital stock held by the non-FHLB member reporting entity or collateral pledged to an FHLB on behalf of an affiliate shall be nonadmitted. Detail of the affiliate FHLB arrangement, including any collateral pledged or funds received, shall be captured as a related party transaction (as if the activity occurred directly with the affiliate) under the provisions of *SSAP No. 25—Affiliates and Other Related Parties*.

### FHLB Disclosures

1. For reporting entity FHLB members, the following information shall be disclosed in the financial statements for current and prior year and between general account and separate account activity. The information in the disclosures shall be presented gross even if a right to offset exists per *SSAP No. 64—Offsetting and Netting of Assets and Liabilities*.
2. General description of FHLB agreements, with information on the nature of the agreement, type of borrowing (advances, lines of credit, borrowed money, etc.) and use of the funding.
3. Amount of FHLB capital stock held, in aggregate, and classified as follows: i) membership stock (separated by Class A and Class B); ii) Activity Stock; and iii) Excess Stock. For membership stock, report the amount of FHLB capital stock eligible for redemption and the anticipated timeframe for redemption: i) less than 6 months, ii) 6 months to 1 year, iii) 1 year to 3 years, and iv) 3 to 5 years.
4. Amount (fair value and carrying value) of collateral pledged to the FHLB as of the reporting date. In addition, report the maximum amount of collateral pledged to the FHLB at any time during the current reporting period. (Maximum shall be determined on the basis of carrying value, but with fair value also reported)
5. Aggregate amount of borrowings at the reporting date from the FHLB, reflecting compilation of all advances, loans, funding agreements, repurchase agreements, securities lending, etc., outstanding with the FHLB, and classify whether the borrowing is in substance: i) debt (*SSAP No. 15—Debt and Holding Company Obligations*), ii) a funding agreement (*SSAP No. 52—Deposit-Type Contracts*), or iii) Other. For funding agreements, report the total reserves established. Report the maximum amount of aggregate borrowings from an FHLB at any time during the current reporting period, the actual or estimated maximum borrowing capacity as determined by the insurer, with a description of how the borrowing capacity was determined, and whether current borrowings are subject to prepayment penalties.
6. The disclosures in paragraphs 17.c. through 17.f. shall be included in the annual audited statutory financial reports only. The FHLB disclosures in paragraph 18 are required in all interim and annual financial statements regardless if the activity is materially different from the activity reported during the prior reporting period. Refer to the Preamble for further discussion regarding disclosure requirements.

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 forward a proposal to the Blanks (E) Working Group to supplement the identification of FHLB borrowings that are classified as a deposit-type contract and reported on Exhibit 7 - Deposit-Type Contracts. The supplemental data to be captured is consistent with current requirements in *SSAP No. 30R—Unaffiliated Common Stock,* however this improved reporting granularity will significantly assist financial statement users with the ability to identify FHLB borrowings captured in Exhibit 7. The proposed additions to Exhibit 7 are shown below.

**ANNUAL STATEMENT BLANK – LIFE/FRATERNAL AND HEALTH (LIFE SUPPLEMENT)**

**EXHIBIT 7 – DEPOSIT-TYPE CONTRACTS**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 1 | 2 | 3 | 4 | 5 | 6 |
|  | Total | Guaranteed Interest Contracts | Annuities Certain | Supplemental Contracts | Dividend Accumulations or Refunds | Premium and Other Deposit Funds |
|  1. Balance at the beginning of the year before reinsurance  |   |   |   |   |   |   |
|  2. Deposits received during the year  |   |   |   |   |   |   |
|  3. Investment earnings credited to the account  |   |   |   |   |   |   |
|  4. Other net change in reserves  |   |   |   |   |   |   |
|  5. Fees and other charges assessed  |   |   |   |   |   |   |
|  6. Surrender charges  |   |   |   |   |   |   |
|  7. Net surrender or withdrawal payments  |   |   |   |   |   |   |
|  8. Other net transfers to or (from) Separate Accounts  |   |   |   |   |   |   |
|  9. Balance at the end of current year before reinsurance (a) (Lines 1+2+3+4-5-6-7-8)  |   |   |   |   |   |   |
|  10. Reinsurance balance at the beginning of the year  |   |   |   |   |   |   |
|  11. Net change in reinsurance assumed  |   |   |   |   |   |   |
|  12. Net change in reinsurance ceded  |   |   |   |   |   |   |
|  13. Reinsurance balance at the end of the year (Lines 10+11-12)  |   |   |   |   |   |   |
|  14. Net balance at the end of current year after reinsurance (Lines 9+13) |  |  |  |  |  |  |

(a) FHLB Funding Agreements

1. Reported as a GICs (captured in column 2): $\_\_\_\_\_\_\_\_\_\_\_\_

2. Reported as an Annuities Certain (captured in column 3): $\_\_\_\_\_\_\_\_\_\_\_\_

3. Reported as Supplemental Contracts (captured in column 4): $\_\_\_\_\_\_\_\_\_\_\_\_

4. Reported as Dividend Accumulations or Refunds (captured in column 5) $\_\_\_\_\_\_\_\_\_\_\_\_

5. Issued as Premium or Other Deposit Funds (captured in column 6): $\_\_\_\_\_\_\_\_\_\_\_\_

6. Total Issued as Deposit-Type Contracts (captured in column 1): (Sum of Lines 1 through 6) $\_\_\_\_\_\_\_\_\_\_\_\_

Staff Review Completed by: Jim Pinegar, NAIC Staff – October 2021

Status:

On October 25, 2021, in response to an e-vote to expose, the Statutory Accounting Principles (E) Working Group exposed this agenda item for public comment. This agenda item does not propose statutory accounting revisions, however resulted in a referral to the Blanks (E) Working Group to include a supplemental data capture footnote for FHLB borrowings that are classified as a deposit-type contract and reported on *Exhibit 7 – Deposit-Type Contracts.*

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2021/11. October 25 e-vote/21-16 - SSAP No. 30R - FHLB Disclosure - Blanks Referral.docx