

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Schedule D-6-1, Supplemental Reporting

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* defines the specific criteria for when an investment is considered a subsidiary, controlled or affiliated entity (SCA) for statutory accounting purposes. Broadly defined, SCAs are entities that are 1) directly or indirectly owned or controlled by a reporting entity (i.e., a subsidiary), or 2) within a holding company system or a party that is directly or indirectly, through one or more intermediaries, in which controls, is controlled by, or is under common control with a reporting entity (i.e., an affiliate). While SSAP No. 97 offers varying classifications of SCAs with differing valuation methods, all SCAs are ultimately reported on *Schedule D – Part 6 – Section 1: Valuation of Shares of Subsidiary, Controlled or Affiliated Entities*.

The reporting requirements for SCAs is defined in SSAP No. 97, Exhibit A, however in general, the process is as follows: (note: the following comments are not applicable for domestic SCA insurance companies)

- All SCA entities, regardless of if they are nonadmitted, have a zero value, or are immaterial to the reporting entity, must file a “Sub-1” within 90 days of the acquisition or formation of the investment. The Sub-1 filing is to gather basic information about the SCA and is used to determine if the transaction meets certain specific criteria specified within SSAP No. 97.
- Annually, but no later than August 31 (or one month after the audit report is issued for an SCA – for entities who routinely received their audit reports after August 31), SCAs must file a “Sub-2” filing. This filing details the valuation method utilized; the value claimed in Schedule D-6-1 and includes all required supporting documentation. (Nonadmitted assets are not required to file a Sub-2 if they are nonadmitted, or had a zero value, for the full reporting period). The Sub-2 filing is then reviewed by the NAIC for verification of the claimed value. If required, valuation adjustments are made. As directed in SSAP No 97, **if the insurance company has reported a value for a SCA investment on its financial statement blank that differs from the value approved by the NAIC, the insurer is required to adjust the reported value in its next quarterly financial statement blanks, unless otherwise directed by the insurer’s state of domicile.** (Note, the SCA review process occurs in arrears. As such, when a value is adjusted, the concepts for the adjustment shall be applied to the next year-end. For example, if a company did not incorporate required SSAP No. 97 adjustments in determining the reported value as of Dec. 31, 2020, those adjustments should be considered when determining the value reported as of Dec. 31, 2021 (or earlier if known when the quarterly financials are completed). When the adjustment is material, then the guidance in *SSAP No. 3—Accounting Changes and Corrections of Errors* would be applicable.)

In 2019, the NAIC reviewed 824 SCA filings (which includes both Sub-1 and Sub-2 filings). Of the total, 720 were Sub-2 filings (the filing in which a value is approved). Of the 720 Sub-2 filings, 125 (approx. 17%) resulted in *valuation decreases*. Presumably, per SSAP No. 97, entities (unless directed by their state of domicile) adjusted the reported values in their next quarterly financial statements, however NAIC staff have found that it is not uncommon for the same entities, year after year, to have approved values that vary significantly from their reported balances. It is also important to note that while the NAIC does send monthly reports on SCA activity to state regulators, the process of reviewing the activity reports and verifying compliance with SSAP No. 97, for state regulators (and NAIC staff) is operationally onerous. Accordingly, this agenda item has been drafted to propose

new supplemental reporting (in electronic only columns) to assist state regulators to 1) ensure Sub-1 and Sub-2 filings are being submitted by reporting entities, and 2) identify situations where the NAIC approved value varies significantly from the value reported on Schedule D-6-1.

Existing Authoritative Literature:

Staff note – For completeness of the document, the authoritative guidance defining SCA’s in scope of SSAP No. 97 has been included herein. Certain relevant items have been bolded for emphasis.

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities

Definition [of a SCA]

1. Parent and subsidiary are defined as follows:
 - a. Parent—An entity that directly or indirectly owns and controls the reporting entity;
 - b. **Subsidiary—An entity that is, directly or indirectly, owned and controlled by the reporting entity.**
2. **An affiliate is defined as an entity that is within the holding company system or a party that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the reporting entity.** An affiliate includes a parent or subsidiary and may also include partnerships, joint ventures, and limited liability companies as defined in *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*. Those entities are accounted for under the guidance provided in SSAP No. 48, which requires an equity method for all such investments.
3. **Control is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the investee,** whether through the (a) ownership of voting securities, (b) by contract other than a commercial contract for goods or nonmanagement services, (c) by common management, or (d) otherwise. Control shall be presumed to exist if a reporting entity and its affiliates directly or indirectly, own, control, hold with the power to vote, or hold proxies representing 10% or more of the voting interests of the entity.
4. Control as defined in paragraph 5 shall be measured at the holding company level. For example, if one member of an affiliated group has a 5% interest in an entity and a second member of the group has an 8% interest in the same entity, the total interest is 13% and therefore each member of the affiliated group shall be presumed to have control. This presumption will stand until rebutted by an evaluation of all the facts and circumstances relating to the investment based on the criteria in *FASB Interpretation No. 35, Criteria for Applying the Equity Method of Accounting for Investments in Common Stock, an Interpretation of APB Opinion No. 18*. The corollary is required to demonstrate control when a reporting entity owns less than 10% of the voting securities of an investee. The insurer shall maintain documents substantiating its determination for review by the domiciliary commissioner. An investment in an SCA entity may fall below the level of ownership described in paragraph 5, in which case, the reporting entity would discontinue the use of the equity method, as prescribed in paragraph 13.g. Additionally, through an increase in the level of ownership, a reporting entity may become qualified to use the equity method of accounting (paragraph 8.b.), in which case, the reporting entity shall add the cost of acquiring additional interest to the current basis of the previously held interest and shall apply the equity method prospectively, as of the date the investment becomes qualified for equity method accounting. Examples of situations where the presumption of control may be in doubt include the following:
 - a. Any limited partner investment in a limited partnership, unless the limited partner is affiliated with the general partner.
 - b. An entity where the insurer owns less than 50% of an entity and there is an unaffiliated individual or group of investors who own a controlling interest.

- c. An entity where the insurer has given up participating rights as a shareholder to the investee.
5. Investments in SCA entities meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement.

EXHIBIT A – SCA REPORTING PROCESS

50. **SCA entities, except for domestic SCA insurance company investments accounted for under paragraph 8.b.i of this statement, in which the reporting entity has an equity interest (common or preferred stock), are required to be filed with the NAIC. Nonadmitted assets are not required to be filed in a Sub-2 as long as they were nonadmitted, or had a zero value, for the full reporting period (all interim and annual reporting).** Immaterial asset SCAs do not have an automatic exclusion from filing, as immateriality of an SCA will be ascertained by the state of domicile of the insurance reporting entity, but companies are allowed to request an exemption from the domiciliary state to not file an SCA on the basis that it is immaterial. The filing process does not include investments within the scope of SSAP No. 48.

51. **Except for domestic SCA insurance company investments accounted for under paragraph 8.b.i., all SCA investments within the scope of this statement, purchased during any one calendar year, shall be reported to the NAIC on a Sub-1 form within 90 days of the acquisition or formation of the investment; this includes nonadmitted, zero-valued and immaterial SCAs.** The NAIC will process that filing in the same year but will not at that time approve or disapprove a value for the SCA investment. **By August 31 of each year, the insurance company shall submit a Sub-2 filing for the previously purchased SCA investment reported on a Sub-1 form and later that year, the NAIC will approve a value for the transaction.** For SCAs that routinely receive their audit reports after the August 31 deadline, a filing deadline of one month after the audit date shall be applied. Filers must provide previous years' audit reports to verify an audit report dated after August 31 in order to not be charged a late fee for a Sub-2 filing that is filed after the August 31 deadline. The value approved by the NAIC at the conclusion of the Sub-2 form filing is reported by the insurance company on its financial statement blank. If the insurance company has reported a value for the SCA investment on its financial statement blank that differs from the value approved by the NAIC, the insurer is required to adjust the reported value in its next quarterly financial statement blank unless otherwise directed by the insurer's state of domicile.

52. Insurance companies shall use one of the valuation methods described in paragraph 8 to calculate the value of their investments in insurance and non-insurance SCA companies. An insurance company shall calculate the value of its investments in foreign insurance and all non-insurance company SCA entities and report the value to the NAIC no later than August 31, or one month after the audit report date for SCAs that routinely receive their audits after August 31 for existing SCA investments, and within 90 days of the acquisition or formation of a new SCA investment.

Initial Reporting of SCA Investments

53. Reporting the acquisition or formation of a new investment is accomplished by submitting a completed Sub-1 form for each investment, disclosing (i) the valuation reported or to be reported by the insurance company on its latest or next quarterly financial statement blank, (ii) which method of those described in paragraph 8 was used to arrive at the valuation, (iii) the factual context of the transaction and (iv) economic and business motivations for the transaction. The submission will be processed by the NAIC only if the NAIC determines it has been provided with all material information with respect to all SCA companies of the reporting insurance company that require valuation.

54. **The purpose of a Sub-1 filing is to gather basic information about the SCA.** If the NAIC determines that the reported transaction meets the tests specified, it will complete the filing in the VISION database. If the NAIC determines that the transaction does not meet the tests specified, it will not complete the filing in the VISION database and instead shall notify the reporting insurance company and the state of domicile in writing of its determination.

Subsequent Reporting of SCA Investments

55. **By August 31 or one month after the audit report date of each year and subsequent to the reporting of an SCA investment on the Sub-1 form, the insurance company shall submit a Sub-2 form filing, with all supporting documentation for foreign SCAs provided in English, for the same SCA investment. Additionally, by August 31 or one month after the audit report date of each year, any insurance company that has made a Sub-2 form filing in a previous year must update the information by filing an updated Sub-2 form filing.**

56. Each year the NAIC shall compile a list of all SCA investments (excluding insurance company SCAs (paragraph 8.b.i.) nonadmitted and zero-value SCAs) reported as Sub-1 form filings for which a Sub-2 form filing has not yet been received. For these transactions, the NAIC will notify the responsible reporting insurance company and its state of domicile that it has not received a Sub-2 filing for the SCA investment.

57. **The purpose of the Sub-2 filing is to determine whether the value calculated by the reporting insurance company for the SCA investment is appropriate and to approve that or some other value for reporting on the insurer's financial statement blank.**

58. An insurance company that concludes an SCA transaction at year-end may be unable to file a Sub-1 form prior to the time it would be required to file a Sub-2 form. Where this is the case, the NAIC is authorized to accept and review a Sub-1 filing from such an insurance company and to accept and review the Sub-2 filing after the Sub-1 filing review has been completed.

59. No filing of an investment in a domestic SCA insurance company valued under paragraph 8.b.i. shall be required to be made with the NAIC.

Assessment and Review of Sub-2 Form

64. By August 31 or one month after the audit report date of each year, the NAIC shall initiate a review of all SCA investments for which new Sub-2 form filings have been received as well as an annual update review of Sub-2 SCA investments already logged in the VISION database. **The NAIC review shall encompass a review of the most recent annual statutory reporting by the parent insurance company's Schedule Y (to ascertain the identity of the members of the holding company system and to ensure that information for all SCA companies has been submitted), a review of the parent's financial statement blank to review the last reported value for the SCA investments and a review of the VISION database to determine whether SCA debt and SCA preferred securities have been assigned NAIC designations.** As part of its analysis, the NAIC shall review the portion of the bond investments carried by the parent or a subsidiary insurer with a **Z** notation. If the NAIC determines that the portion of the **Z** bonds shown on the documentation is significant, the NAIC shall not process the Sub-2 filing until the insurance company reports the bonds to permit removal of the **Z** notation. Beginning with year-end 2019, two new suffixes will apply: **YE** and **IF**. **YE** means that the security is a properly filed annual update that the SVO has determined will not be assigned an NAIC designation by the close of the year-end reporting cycle. The symbol **YE** is assigned by the SVO pursuant to the carryover administrative procedure described in Part One, Section 3 f) (iii) of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. When the SVO assigns the symbol **YE** it also assigns the NAIC designation in effect for the previous reporting year. **IF** means that the security is an initial filing that has been properly filed with the SVO but which the SVO has determined will not be assigned an NAIC designation by the close of the year-end reporting cycle. The symbol **IF** is assigned by the SVO and communicates that the insurer should self-designate the security for year-end and identify it with the symbol **IF**. **IF**, therefore, also communicates to the regulator that the NAIC designation reported by the insurance company was not derived by or obtained from the SVO, but has been determined analytically by a reporting insurance company.

65. **Upon completion of the procedures described above, the NAIC will determine whether the value reported by the insurance company on the current SCA filing was calculated in accordance with the instructions for the valuation method chosen and verify that the filed value reflects the adjustments required by paragraph 9.**

Reporting Instructions for Schedule D, Part 6, Section 1

Column 1	–	CUSIP Identification
Column 2	–	Description
Column 3	–	Foreign
Column 4	–	NAIC Company Code
Column 5	–	ID Number
Column 6	–	NAIC Valuation Method
Column 8	–	Total Amount of Goodwill
Column 9	–	Nonadmitted Amount
Column 10	–	Stock of Such Company Owned by Insurer on Statement Date Number of Shares and
Column 11	–	Stock of Such Company Owned by Insurer on Statement Date % of Outstanding

**** Column 12 through 159 will be electronic only. ****

Column 12 – Legal Entity Identifier (LEI)

Column 13 – Issuer

Column 14 – Issue

Column 15 – ISIN Identification

[Column 16 – Prior Year BACV](#)

[Column 17 – Prior Year Nonadmitted Amount](#)

[Provide the amount nonadmitted, if any, included in Column 4 of the Asset page.](#)

[Column 18 – Prior year Sub-2 Verified Value](#)

[If per SSAP No. 97 or by direction of the domiciliary regulator, the SCA is required to be filed with the NAIC, provide the prior year's Sub-2 'Total Value Claimed.'](#)

[Column 18 – Prior year VISION Filing Number](#)

[If per SSAP No. 97 or by direction of the domiciliary regulator, the SCA is required to be filed with the NAIC, provide the prior year NAIC VISION filing number.](#)

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

Status:

On December 11, 2021, the Statutory Accounting Principles (E) Working Group moved this item to the active listing and exposed proposed revisions to be incorporated into a Blanks (E) Working Group proposal which would supplement the reporting of SCA investments reported in Schedule D-6-1, as illustrated above. The supplemental data to be captured is consistent with current requirements in SSAP No. 97 and as a result, the agenda item did not propose statutory revisions.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2021/13.FallNationalMeeting/Exposures/21-22-ScheduleD-6-1,SupplementalReporting.docx>