



To: Commissioner David Altmaier, Chair of the Capital Adequacy (E) Task Force
 Kevin Fry, Chair of the Valuation of Securities (E) Task Force
 Jake Garn, Chair of the Blanks (E) Working Group

From: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group

Date: August 13, 2018

Re: NAIC Designations for Schedule D, Part 2 – Section 2 – Common Stocks

The purpose of this referral is to communicate the Statutory Accounting Principles (E) Working Group's support for the consideration of reporting revisions to permit NAIC designations for SEC registered funds (mutual funds, closed end funds and unit investment trusts), in scope of *SSAP No. 30—Unaffiliated Common Stock* (reported on Schedule D, Part 2 – Section 2 – Common Stock (D-2-2)), if determined appropriate based on the underlying holdings of the fund. (It is presumed that such NAIC designations would only be permitted for SEC registered funds that are comprised of bond or qualifying preferred stock investments.)

This referral was developed in response to requests to move equity investments that have underlying bond investments from the scope of *SSAP No. 30* to the scope of *SSAP No. 26R—Bonds* in order to obtain more appropriate risk-based capital (RBC) charges. In reviewing the request, the Statutory Accounting Principles (E) Working Group has concluded against moving these equity investments to *SSAP No. 26R* for the following reasons:

- SEC registered funds in scope of *SSAP No. 30* are not bonds, and do not represent a creditor relationship whereby there is a fixed schedule for one or more future payments.
- The long-term bond schedule (Schedule D-1) is not conducive to the reporting of funds, and questions often arise on the proper completion of Schedule D-1 for the limited equity investments already captured in scope of *SSAP No. 26R*. (For example, several columns on Schedule D-1 are not applicable for funds including interest rate, par value, maturity date, etc.)
- Existing guidance that allows SVO-Identified ETFs to be reported in scope of *SSAP No. 26R*, on Schedule D-1, has historically resulted with inconsistent reporting for similar investments. Companies may not identify that they have investments permitted for reporting on Schedule D-1 and continue to report these investments on Schedule D-2-2, or companies may infer the limited *SSAP No. 26R* provisions to additional investments that do not qualify for Schedule D-1 reporting.
- The desire for equity investments to be within scope of *SSAP No. 26R* is driven by RBC charges and not the investment structure or the measurement method for the investment.

Although the Statutory Accounting Principles (E) Working Group supports the consideration of revisions to permit NAIC designations on Schedule D-2-2, the Statutory Accounting Principles (E) Working Group defers to each of the identified groups in determining whether it is appropriate and feasible to incorporate these revisions. The ability to report NAIC designations on Schedule D-2-2 would require revisions that would include, at a minimum, the following assessments:

1. Blanks (E) Working Group – Consider a new column for NAIC designations on Schedule D-2-2.
2. Valuation of Securities (E) Task Force – Consider and establish a methodology for reviewing equity investments with underlying bond investments and in determining the appropriate NAIC designation.

3. Capital Adequacy (E) Task Force – Consider and determine the extent, if any, the reported NAIC designation for the SEC registered investment should be factored into the RBC calculation.

Although the Statutory Accounting Principles (E) Working Group has previously communicated that they do not plan to entertain future requests to reclassify investments to be in scope of a different SSAP when the key driver is an RBC charge, this issue was raised as part of the Statutory Accounting Principles (E) Working Group's current project to review SSAP No. 30 under the investment classification project. Going forward, if future requests are received, the Working Group intends to direct inquirers to the appropriate NAIC group for RBC assessment.

A referral response is not expected, as there will be no statutory accounting impact regardless of the ultimate decision. As noted, the Statutory Accounting Principles (E) Working Group has previously concluded against moving these equity investments from the scope of SSAP No. 30 to SSAP No. 26R.

Please contact NAIC staff of the Statutory Accounting Principles (E) Working Group with any questions.

Cc: Julie Gann, Robin Marcotte, Fatima Sediqzad, Jake Stultz, Charles A. Therriault, Robert Carcano, Mary Caswell, Calvin Ferguson, Jane Barr, Lou Felice

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