

Interpretation of the Statutory Accounting Principles Working Group

INT 20-10: Reporting Nonconforming Credit Tenant Loans

INT 20-10 Dates Discussed

Evote to Expose November 18, 2020; December 18, 2020; Evote to Adopt December 28, 2020

INT 20-04 References

SSAP No. 43R—Loan-Backed and Structured Securities

NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the Investment Analysis Office

INT 20-10 Issue

1. During the Statutory Accounting Principles (E) Working Group meeting on November 12, 2020, the Working Group discussed and deferred final decision on inconsistencies in the reporting of “nonconforming” credit tenant loans (CTLs) currently reported on Schedule D-1 and directed reporting exceptions for year-end 2020. Due to subsequent questions, this interpretation has been issued to detail the provisions provided and clarify the reporting of CTLs in the year-end 2020 statutory financial statements.

INT 20-10 Discussion

2. As detailed in agenda item 2020-24, some reporting entities have reported CTLs that do not qualify as “conforming” CTLs per the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) on Schedule D-1: Long-Term Bonds. CTLs that do not qualify under the P&P Manual structural requirements are noted as “nonconforming” CTLs. During the November 12 discussion, the Working Group deferred final guidance on the reporting of nonconforming CTLs. This deferral was supported as the Working Group has a separate project to assess investments that are captured on Schedule D-1. With this project, it was identified that it would be undesirable to require an investment that is currently being reported on Schedule D-1 to be moved to a different schedule if there was potential for that investment to subsequently qualify for Schedule D-1.

3. Although the Working Group deferred final conclusion on the reporting of nonconforming CTLs, it was identified that the long-standing guidance detailed in the P&P Manual only permits CTLs that met certain structural criteria, which is verified by the SVO, to be reported on Schedule D-1. Under this existing guidance, these conforming CTLs are also prohibited from using CRP ratings in determining NAIC designation but are required to utilize SVO-assigned NAIC designations obtained after the SVO verifies compliance with the structural elements. As such, to ensure that nonconforming CTLs are not provided more favorable provisions than conforming CTLs that meet structural requirements, the Working Group confirmed that only CTLs that are filed with the NAIC SVO by February 15, 2021, shall be reported on Schedule D-1. Key aspects noted in this direction:

- a. This direction is a limited-time exception to the *NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the Investment Analysis Office* and shall not be inferred to other investments. Pursuant to the noted Policy Statement, obtaining an NAIC designation does not change an investment’s applicable SSAP, annual or quarterly statement reporting schedule, or override other SSAP guidance required for the investment to be an admitted asset. Although nonconforming CTLs will be permitted to be reported on Schedule D-1 when filed with the SVO for future receipt of an SVO-assigned NAIC designation (even without meeting structural requirements), this is strictly a limited-time exception

- to prevent reporting schedule changes while a larger project on the scope of Schedule D-1 is considered.
- b. The requirement to file the nonconforming CTL for an SVO-assigned NAIC designation for Schedule D-1 applies to all investments that represent credit tenant loans. It is not permissible for a reporting entity to classify an investment, which meets the characteristics of a credit tenant loan, as a different type of investment (for example, as a form of leased-backed security) for purposes of reporting the investment on Schedule D-1 without filing for an SVO-assigned NAIC designation.
 - c. The Working Group direction intends to only address nonconforming CTLs that have previously been reported on Schedule D-1 although they did not comply with the requirements of the P&P Manual. This direction is not intended to require, or permit, nonconforming CTLs that have been previously reported as mortgage loans (on Schedule B – Mortgage Loans) or as other invested assets (on Schedule BA – Other Long-Term Invested Assets) to be moved to a different reporting schedule. Nonconforming CTLs that have previously been reported on Schedule B or BA shall remain on that reporting schedule for the duration of this INT.

INT 20-10 Consensus

4. The Working Group reached a consensus to provide a limited time exception allowing nonconforming CTLs to continue to be reported on Schedule D-1 for year-end 2020 provided they have filed for an SVO-assigned NAIC designation. With the issuance of this interpretation, the Working Group confirmed the provisions and limitations detailed in paragraph 3, and summarized the resulting provisions below:
 - a. CTLs that qualify per the provisions of the P&P Manual are considered to be “conforming” CTLs and shall be reported on Schedule D-1 with the NAIC designation obtained from the SVO.
 - b. CTLs that do not qualify per the provisions of the P&P Manual to be “conforming” CTLs shall follow the accounting and reporting provisions detailed in the following subparagraphs. These CTLs are noted as “nonconforming CTLs.”
 - i. Nonconforming CTLs that have previously been reported on Schedule D-1 may continue to be reported on Schedule D-1 for year-end 2020 if they have filed for an SVO-assigned NAIC designation. This provision only requires that an entity file the security with the SVO by February 15, 2021, not that the entity receive the SVO-assigned designation prior to submitting their 2020 annual statutory financial statements. If an entity does not file the security with the SVO by February 15, 2021, the investment shall be reported on Schedule BA. If reporting on Schedule BA, these CTLs shall not be reported with a credit-rating provider (CRP) determined NAIC designation. For nonconforming CTLs that have been filed with the SVO and retained on Schedule D-1, the reporting entity is required to disclose the total amount of nonconforming CTLs reported on Schedule D-1 on Note 1 as if it were a permitted practice. The reporting entity shall complete the permitted practice disclosures required by *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, with two separate entries that detail the nonconforming CTLs that were reported on D-1 on one line, and the nonconforming CTLs that were not reported on Schedule BA on a separate line within this disclosure. (These lines will likely net to a zero impact to statutory surplus; therefore, the separate line reporting is required.)
 - ii. Nonconforming CTLs that have been previously reported on a different reporting schedule (e.g., Schedule B or Schedule BA) shall remain on the prior reporting schedule. There is no requirement for reporting entities to pursue SVO-assigned designations for these CTLs or disclose these nonconforming CTLs in Note 1. Furthermore, reporting entities that have previously reported nonconforming CTLs on Schedule D-1 that do not want to file with

the SVO or that do not want to disclose in Note 1 pursuant to paragraph 4.b.i. are permitted to reclassify these CTLs to Schedule B or Schedule BA without NAIC designations.

5. The exceptions granted in this interpretation are applicable for the year-end 2020 statutory financial statement only. Nonconforming CTLs that have been filed with the SVO and are reported on Schedule D-1 shall continue the Note 1 reporting for each 2021 quarterly financial statement until an SVO-assigned designation is received. The provisions within this INT, and the ability to continue reporting nonconforming CTLs on Schedule D-1 with an SVO-assigned NAIC designation, are limited time exceptions that extend only to October 1, 2021. The exceptions provided in this INT shall not be interpreted to indicate the likely conclusion of the Working Group in determining the appropriate reporting schedule for nonconforming CTLs. All reporting entities shall be prepared to make adjustments to comply with the reporting schedule utilized for nonconforming CTLs upon final conclusion by the Working Group.

INT 20-10 Status

6. On November 18, 2020, the Statutory Accounting Principles (E) Working Group exposed this interpretation to provide a limited-time exception on the reporting of nonconforming CTLs. On December 18, 2020, the Working Group exposed revisions to this interpretation to allow continued D-1 reporting of nonconforming CTLs if they are filed with the SVO by February 15, 2021. With this provision, nonconforming CTLs reported on Schedule D-1 that have not received an SVO-assigned designation shall be disclosed in Note 1 as if a permitted practice. On December 28, 2020, the Working Group finalized action, via evote, to adopt the interpretation exposed December 18, 2020.

7. No further discussion is planned.

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