Virtual Meeting

STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP
Thursday, May 20, 2021
2:00 – 3:30 p.m. ET / 1:00 – 2:30 p.m. CT / 12:00 – 1:30 p.m. MT / 11:00 a.m. – 12:30 p.m. PT

Summary Report

The Statutory Accounting Principles (E) Working Group met May 20, 2021. During this meeting, the Working Group:

1. Adopted the following nonsubstantive revisions to statutory accounting guidance:
   b. *SSAP No. 47—Uninsured Plans*: Revisions reject ASU 2021-02, Franchisors – Revenue from Contracts with Customers for statutory accounting. (Ref #2021-08)
   c. *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*: Revisions incorporate disclosure elements and a data-capture template for where an entity has transferred assets but retains economic interest within the reporting entity, its related parties, or another member within the holding company group. (Ref #2021-03)
   d. Adopted agenda items supporting disaggregated product identifiers to be used for each separate account product reported in the general interrogatories. This adoption does not result in statutory revisions, but it is reflected in the Working Group recommendation to support blanks proposal 2021-03BWG. (Ref #2020-37 and Ref #2020-38)
   e. *Appendix B—Interpretations of Statutory Accounting Principles*:
      1. *Interpretation (INT) 20-01: ASU 2020-04 – Reference Rate Reform*: This interpretation provides optional guidance, allowing for the continuation of certain existing hedge relationships and thus does not require hedge de-designation for derivative instruments affected by changes to interest/reference rates due to reference rate reform. This interpretation is all-encompassing for “any hedging relationships” within the scope of INT 20-01 and captures all hedging transaction types, regardless of if the transaction occurred bilaterally or through a central clearing party. (Ref #2021-01)
      2. *INT 21-01: Accounting for Cryptocurrencies*: This interpretation clarifies that directly held cryptocurrencies neither meet the definition of cash in SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments nor when directly held, meet the definition of an admitted asset per SSAP No. 4—Assets and Nonadmitted Assets. (Ref #2021-05)
f.  Appendix D—Nonapplicable GAAP Pronouncements: Revisions reject ASU 2020-11, Financial Services – Insurance: Effective Date and Early Application as not applicable for statutory accounting. (Ref #2021-07)

2.  Adopted the following editorial revisions (Ref #2021-06EP):
   b.  SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities: Revisions correct grammatical errors in paragraph 54.
   c.  SSAP Glossary: Revisions remove the footnote in the Glossary title and replace it as an opening paragraph with updated verbiage.

3.  Exposed the substantive proposed bond definition to be used for all securities in determining whether they qualify for reporting on Schedule D1 – Long-Term Bonds. The definition intends to reflect principal concepts to ensure appropriate consideration on whether a structure qualifies as an issuer credit obligation or an asset-backed security (ABS) prior to reporting as a bond. The public comment period for this agenda item ends July 15. (Ref #2019-21)

4.  Exposed nonsubstantive revisions to SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies and SSAP No. 97 to indicate that the equity method valuation reference in SSAP No. 97 can result in a negative equity valuation and to limit the statutory adjustments match in SSAP No. 97, paragraph 9. The exposure requests public comments on language suggested by interested parties that foreign insurance subsidiary, controlled and affiliated entities (SCAs) shall stop at zero (and thus not be subject to negative equity valuations) when applying paragraph 9 adjustments in cases where the foreign insurance subsidiary is not engaged in providing services to, or holding assets on behalf of, U.S. insurers. The public comment period for this agenda item ends July 15. (Ref #2021-04)

5.  Adopted a response to the Life Risk-Based Capital (E) Working Group on its referral request to consider accounting and reporting aspects of an American Council of Life Insurers (ACLI) proposal to modify the treatment of real estate in the life risk-based capital (RBC) formula. The adopted response identifies concerns on the reliability and consistency of fair value data to be considered before allowing reporting entities to reduce RBC through the reported fair value of real estate.

6.  Received an update on the following projects and referrals:
   a.  The Working Group directed a referral to be sent to the Life Actuarial (A) Task Force seeking input regarding whether the Task Force would consider changes to the reserve framework of fixed indexed annuity products, as its response will likely directly influence the accounting options for derivatives hedging these products. (Ref #2020-36)
   b.  SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act: The Working Group directed NAIC staff to develop additional revisions that expand the guidance to address the diversity in state Affordable Care Act (ACA) reinsurance programs identified in the industry comments. (Ref #2021-09)
c. **INT 20-10: Reporting Nonconforming Credit Tenant Loans:** Contingently exposed nonsubstantive revisions in anticipation of a Valuation of Securities (E) Task Force proposal to revise filing exempt (FE) requirements for credit tenant loans (CTLs). Subsequent to the Working Group meeting, on May 24, the Task Force did not expose the anticipated revisions. Instead, the Task Force exposed edits to clarify that the reference to mortgage loans in the CTL definition pertains to items in scope of SSAP No. 37—*Mortgage Loans* and that the *Accounting Practices and Procedures Manual* determines investment accounting and reporting. With this Task Force action, the revisions to INT 20-10 were not exposed. It is anticipated that the Working Group will review INT 20-10 after the Task Force concludes actions after their exposure.

d. Received a response from the Valuation of Securities (E) Task Force regarding CTLs and information regarding Securities Valuation Office (SVO) filings received.