



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Virtual Meeting

(in lieu of meeting at the 2021 Spring National Meeting)

STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP

Monday, March 15, 2021

3:00 – 5:00 p.m. ET / 2:00 – 4:00 p.m. CT / 1:00 – 3:00 p.m. MT / 12:00 – 2:00 p.m. PT

Meeting Summary Report

The Statutory Accounting Principles (E) Working Group met March 15, 2021. During this meeting, the Working Group:

1. Adopted its Jan. 25, 2021; Jan. 6, 2021; Dec. 28, 2020; Dec. 18, 2020; Dec. 8, 2020; and Nov. 12, 2020, minutes. The interim minutes included the following adoptions to Appendix B—Interpretations (INTs) of Statutory Accounting Principles:
 - a. Extended INT 20-03: Troubled Debt Restructuring Due to COVID-19 and INT 20-07: Troubled Debt Restructuring for Certain Debt Instruments Due to COVID-19 through Jan. 1, 2022, or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak terminates.
 - b. INT 20-10: Reporting Nonconforming Credit Tenant Loans (CTLs): This INT allows nonconforming CTLs to continue to be reported on Schedule D Part 1 – Long-Term Bonds if filed with the NAIC Securities Valuation Office (SVO) by Feb. 15, 2021. The provisions within this INT and the ability to continue reporting nonconforming CTLs on Schedule D Part 1 with an SVO-assigned NAIC designation are limited time exceptions that extend only to Oct. 1, 2021.
 - c. INT 20-11: Extension of Ninety-Day Rule for the Impact of 2020 Hurricanes, California Wildfires and Iowa Windstorms: This INT provides a 60-day extension from the 90-day rule for uncollected premium balances, bills receivable, and amounts due from agents and for policies directly impacted by the noted events. This INT expires Feb. 28, 2021.
2. Adopted the following nonsubstantive revisions to statutory accounting guidance:
 - a. *Statement of Statutory Accounting Principles (SSAP) No. 5R—Liabilities, Contingencies and Impairments of Assets, SSAP No. 72—Surplus and Quasi-Reorganizations, and SSAP No. 86—Derivatives*: Revisions reject *Accounting Standards Update (ASU) 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity* for statutory accounting. (Ref #2020-41)
 - b. *SSAP No. 25—Affiliates and Other Related Parties*: Revisions clarify that an ownership greater than 10% in a reporting entity results in a related party designation, regardless of any disclaimer of control or affiliation. Additionally, the agenda item requires disclosure of such instances and identification of an insurer’s ultimate controlling party, as requested by the Group Solvency Issues (E) Working Group. (Ref #2019-34)



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- c. *SSAP No. 26R—Bonds:*
 - 1. Revisions clarify that perpetual bonds are within the scope of SSAP No. 26R, and they are subject to the yield-to-worst concept. Additionally, perpetual bonds that possess a future call date will retain bond accounting—i.e., accounted for at amortized cost—however, if a perpetual bond does not possess a future call date, fair value accounting is required regardless of NAIC designation. (Ref #2020-22)
 - 2. Revisions expand the current called bond disclosures to also include bonds terminated early through a tender offer. (Ref #2020-32)
 - d. *SSAP No. 32R—Preferred Stock* and SSAP No. 86: Revisions direct that publicly traded preferred stock warrants are in the scope of SSAP No. 32R, and they shall be reported at fair value. (Ref #2020-33)
 - e. *SSAP No. 43R—Loan-Backed and Structured Securities:* Revisions incorporate minor scope modifications to reflect recent changes to the Federal Home Loan Mortgage Corporation (Freddie Mac) Structured Agency Credit Risk (STACR) and Federal National Mortgage Association (Fannie Mae) Connecticut Avenue Securities (CAS) programs, which allow credit risk transfer securities from these programs to remain in the scope of SSAP No. 43R when issued through a real estate mortgage investment conduit (REMIC) structure. (Ref #2020-34)
 - f. *SSAP No. 71—Policy Acquisition Costs and Commissions:* Revisions clarify the guidance in SSAP No. 71 regarding levelized commissions with a Dec. 31, 2021, effective date. The Working Group affirmed the nonsubstantive classification of these revisions as consistent with the original intent of SSAP No. 71. In addition, the Working Group exposed a new annual statement general interrogatory to identify the use of a third party for the payment of commission expenses, which will be concurrently exposed with the Blanks (E) Working Group. (Ref #2019-24)
 - g. *Appendix D—Nonapplicable GAAP Pronouncements:* Revisions reject ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* as not applicable for statutory accounting. (Ref #2020-42)
 - h. *Appendix F—Policy Statements:* Revisions to the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles* clarify the existing process regarding the Working Group’s issuance and adoption of accounting interpretations. (Ref #2020-39)
 - i. *Preamble:* Revisions clarify that while any state in which a company is licensed can issue prescribed practices, the prescribed practices directed by the domiciliary state: 1) shall be reflected in the financial statements filed with the NAIC; and 2) are the financial statements subject to independent audit requirements. (Ref #2020-40)
3. Exposed the following nonsubstantive revisions to statutory accounting guidance:
- a. *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments:* Exposed the interpretative guidance provided by *Interpretation (INT) 21-01T: Statutory Accounting Treatment for Cryptocurrencies*, which clarifies that cryptocurrencies do not meet the definition of cash in SSAP No. 2R, and they are nonadmitted assets for statutory accounting. Requested comments on the level of interest and ownership of cryptocurrencies. (Ref #2021-05)



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- b. SSAP No. 26R: Revisions reject ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs* for statutory accounting. (Ref #2021-02)
- c. SSAP No. 47—*Uninsured Plans*: Revisions reject ASU 2021-02, *Franchisors – Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient* in SSAP No. 47. (Ref #2021-08)
- d. SSAP No. 86: Interpretative revisions expose a temporary (optional) expedient and exception guidance for ASU 2021-01, *Reference Rate Reform (Topic 848): Scope* with an expiration date of Dec. 31, 2022. The optional expedients would expand the current exceptions provided by INT 20-01: ASU 2020-04 – *Reference Rate Reform*. The exceptions allow for the continuation of the existing hedge relationship and thus not requiring hedge dedesignation for derivative instruments affected by changes to interest/reference rates due to reference rate reform (regardless of whether they reference the London Interbank Offered Rate (LIBOR) or another rate that is expected to be discontinued). The exception in INT 20-01 would apply for affected derivatives used for discounting, margining, or contract price alignment. (Ref #2021-01)
- e. SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities*: Exposed this agenda item with the intent to dispose without statutory edits. NAIC staff note that the long-standing, required statutory adjustments to SSAP No. 97, paragraph 8.b.iv. – Foreign Insurance SCA Entities could result in negative equity valuation, as assets held in a foreign subsidiary should not be valued in a more favorable manner than had they been held directly by the insurer. Industry comments are requested regarding detailed instances of negative value subsidiary, controlled and affiliated entities (SCAs). (Ref #2021-04)
- f. SSAP No. 103R—*Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*: Revisions propose data-captured templates for existing disclosures in SSAP No. 103R, which are currently only completed in narrative form. Data-capturing of such items will permit state insurance regulators to submit system inquiries to determine the extent to which reporting entities have transferred (sold), but still retain, a material participation with said assets. A blanks proposal will be concurrently exposed with the Working Group’s exposure. (Ref #2021-03)
- g. SSAP No. 107—*Risk-Sharing Provisions of the Affordable Care Act*: Revisions include state Affordable Care Act (ACA) reinsurance programs, which are using Section 1332 waivers in the scope of SSAP No. 107. The revisions continue to follow the hybrid accounting approach for the state ACA programs, as they operate in a similar manner. (Ref #2021-09)
- h. SSAP No. 108—*Derivatives Hedging Variable Annuity Guarantees*: Re-exposed this agenda item to provide additional time for interested parties to develop a proposal for establishing accounting and reporting guidance for derivatives hedging the growth in interest for fixed indexed products. (Ref #2020-36)
- i. Appendix D: Revisions reject ASU 2020-11, *Financial Services—Insurance (Topic 944): Effective Date and Early Application* for statutory accounting. This ASU was issued to address the effective dates of ASU 2019-09, *Financial Services – Insurance (Topic 944): Effective Date* and ASU 2018-12, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, both of which were previously rejected by the Working Group. (Ref #2021-07)



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- j. Blanks:
 - 1. Re-exposed this agenda item for a concurrent exposure with the Blanks (E) Working Group of blanks agenda item 2021-03BWG to modify the current General Interrogatory instructions and require that a distinct disaggregated product identifier be used for each product represented. The disaggregation will require that each separate account product filing or policy form be separately identified. The instructions will also indicate that companies may eliminate proprietary information; however, the elimination will still require the use of a unique reporting identifier. (Ref #2020-37)
 - 2. Re-exposed this agenda item for a concurrent exposure with the Blanks (E) Working Group. The Working Group is sponsoring blanks agenda item 2021-03BWG to clarify reporting by each separate product filing or policy form and add product identifiers, specifically for Pension Risk Transfer (PRT) and Registered Index-Linked Annuity (RILA) transactions in the Separate Account General Interrogatories. (Ref #2020-38)
- 4. Exposed the following editorial revisions (Ref #2021-06EP):
 - a. *SSAP No. 53—Property Casualty Contracts—Premiums*: Revisions retitle to *SSAP No. 53—Property and Casualty Contracts – Premiums*.
 - b. *SSAP No. 97*: 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.
- 5. Disposed the following without revisions to statutory accounting guidance:
 - a. Agenda item 2020-35: *SSAP No. 97 – Audit Opinions* was disposed without statutory revisions, as the issue of nonadmittance due to the inability to quantify a departure from U.S. generally accepted accounting principles (GAAP) was not deemed prevalent. (Ref #2020-35)
- 6. Received an update on the following projects and referrals:
 - a. Received an update that NAIC staff, industry, and key state insurance regulators have made significant progress on agenda item 2019-21: *SSAP No. 43R – Investment Classification Project*. While discussions remain ongoing, it is anticipated that a public exposure will occur via an interim call prior to the Summer National Meeting. The exposure will include additional principle concepts on which investments are eligible for reporting on Schedule D as a bond.
 - b. Received an update that *INT 19-02: Freddie Mac Single Security Initiative* remains in full effect. The Freddie Mac Single Security Initiative remains an ongoing program, and it does not appear to be subject to termination in the foreseeable future.
 - c. Received an update on agenda item 2019-49: *Retroactive Reinsurance Exception*. This agenda item addresses a referral from the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries (Academy), which noted diversity in reporting regarding companies applying the retroactive reinsurance exception, which allows certain contracts to be reported prospectively. NAIC staff have held preliminary discussion with Casualty Actuarial and Statistical (C) Task Force members, with a preliminary recommendation that the premium and



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losses transferred under such transactions should be allocated to the prior Schedule P calendar year premiums and the losses allocated to the prior accident year incurred losses.

- d. Received an update on the reporting and extinguishment of loans received from the Paycheck Protection Program (PPP). For statutory accounting, the authoritative guidance in *SSAP No. 15—Debt and Holding Company Obligations* paragraph 11 provides that debt is recognized until extinguished, including formally being forgiven. In addition, per *SSAP No. 15*, paragraph 25 gains on termination of debt are recognized as capital gains.
- e. Received an update on the Valuation of Securities (E) Task Force discussion regarding revisions to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) as coordination regarding the revisions to *SSAP No. 105R—Working Capital Finance Investments* adopted by the Working Group in May 2020 (agenda item 2019-25). At its Nov. 18, 2020, meeting, the Task Force directed a referral to the Working Group, which is still pending. NAIC staff anticipate addressing this referral when received.
- f. Received an update on current U.S. GAAP Exposures/Invitations to Comment, noting that no comments by the Working Group are planned during the exposure periods.

7. The public comment period for all exposed agenda items ends April 30.

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