To: Jacob Garn, Chair of the Blanks (E) Working Group

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

Re: Year-End 2020 Disclosures / Instructional Revisions

Date: December 15, 2020

The purpose of this memo is for the Statutory Accounting Principles (E) Working Group to notify the Blanks (E) Working Group of revisions to the “Notes to the Financial Statements” that have been adopted for year-end 2020 reporting. As these agenda items have already been adopted within the Statements of Statutory Accounting Principles (SSAPs), which represents the highest level of authoritative guidance as promulgated by the Preamble, these additions to the financial statement notes do not require approval from the Blanks (E) Working Group.

It is recommended that these disclosure requirements and any additional instruction revisions be posted to the NAIC website. Specific proposals, if not yet submitted, will be submitted to the Blanks (E) Working Group to formalize the instruction revisions. This is consistent with the NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Annual Statement Blank located within the Accounting Practices & Procedures Manual. The Statutory Accounting Principles (E) Working Group recommends that the Blanks (E) Working Group and reporting entities, include these items in the note related to the topic, if feasible or alternatively in the “Other” note. It is also requested that this information be included in the December update to the 2020 Annual Statement Instructions.

- Agenda Item 2019-20: Rolling Short-Term Investments – Revisions incorporate principal concepts restricting the classification of certain related party or affiliated investments as cash equivalents or short-term investments. This agenda item also adopted new disclosure requirements in circumstances where short-term investments remain on the short-term schedule for more than one year. The primary revisions to the agenda item were addressed in Blanks Working Group proposals 2019-42BWG and 2019-20BWG. However, the updates to the wash sale disclosures regarding affiliated and non-affiliated investments are pending annual statement instructions revisions.

The instructions for wash sale disclosure, to be captured in Note 17C – Wash Sales, are shown as tracked revisions as follows:

A reporting entity shall disclose the following information for wash sales, as defined in paragraph 12, for all affiliated investment transactions (including items originally classified as cash equivalents and short-term investments) and for non-affiliated involving investment transactions for securities with an NAIC designation of 3 or below, or that do not have an NAIC designation. (For non-affiliated investments, excluding all cash equivalents, derivative instruments as well as and short-term investments with credit assessments equivalent to an NAIC 1-2 designation are excluded from this disclosure.) This disclosure shall be included in the financial statements for when the investment was initially sold. For example, if the investment was sold December 20, 2017, and reacquired on January 10, 2018, the transaction shall be captured in the wash sale disclosure included in the year-end 2017 financial statements.
• Agenda Item 2018-26: SCA Loss Tracking – Accounting Guidance – Revisions state that the reported equity method losses of the SCA would not go negative (thus would stop at zero). However, to the extent there is a financial guarantee or commitment, the guarantee or commitment would be separately captured under SSAP No 5R—Liabilities, Contingencies and Impairment of Assets. This agenda item also updated footnote 10O by removing the “SCA’s reported value” and replacing it with “the amount of any guarantee under SSAP No. 5R.”

This memo intends to inform financial statement filers, which complete annual statement note 10O that 1) note 10O no longer requires “SCA’s reported value,” and 2) as the data capture element cannot be completed for year-end 2020 reporting, any financial guarantees recognized under SSAP No. 5R shall be disclosed in narrative format in annual statement note 10.

For reference, anticipated edits to footnote 10O and its related 2021 reporting table are shown below. As noted, the new data element should be included in narrative format for year end 2020 annual statement reporting.

10O. SCA and SSAP No. 48 Entity Loss Tracking

A reporting entity whose share of losses in an SCA or SSAP No. 48 entity exceeds its investment in the SCA or SSAP No. 48 entity shall disclose its share of losses. (This is required regardless of a guarantee or commitment of future financial support to the SCA or SSAP No. 48 entity.) The disclosure shall apply beginning in the period the SCA or SSAP No. 48 entity investment initially falls below zero and shall continue to be disclosed as long as the SCA or SSAP No. 48 entity investment is in a deficit position. Tracking shall cease once the investment in an SCA or SSAP No. 48 entity has been in a surplus position for one annual reporting period.

This disclosure shall include:
- The name of the SCA or SSAP No. 48 entity
- The reporting entity’s current period share of SCA or SSAP No. 48 entity net income (loss)
- The reporting entity’s accumulated share of SCA or SSAP No. 48 entity losses not recognized during the period that the equity method was suspended
- The reporting entity’s share of the SCA or SSAP No. 48 entity equity, including negative equity
- Whether a guaranteed obligation or commitment for financial support exists
- The SCA or SSAP No. 48 entity’s reported value

The amount of the recognized guarantee under SSAP No. 5R.

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLES BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THESE ILLUSTRATIONS.

O. SCA or SSAP No. 48 Entity Loss Tracking

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<th>Entity</th>
<th>Reporting Entity’s Share of Net Income (Loss)</th>
<th>Accumulated Share of Net Income (Losses)</th>
<th>Reporting Entity’s Share of Equity, Including Negative Equity</th>
<th>Guaranteed Obligation / Commitment for Financial Support (Yes/No)</th>
<th>Amount of Guarantee Recognized Under SSAP No. 5R Reported Value</th>
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Cc: Mary Caswell, Calvin Ferguson, Julie Gann, Robin Marcotte, Jim Pinegar, Fatima, Sediqzad, Jake Stultz

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