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 2018 Disclosures / Instructional Revisions

Date: November 15, 2018

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 2018 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 2018 Annual Statement Instructions.

- <u>Agenda Item 2018-08: Private Placement Variable Annuities</u> – This agenda item specifies that only life insurance contracts that qualify under Internal Revenue Control (IRC) §7702 can be reported under paragraph 6 of *SSAP No. 21—Other Admitted Assets*. This guidance allows insurance reporting entities that are the owner and beneficiary of the life insurance contract to report the amount realizable (generally cash surrender value) as an admitted other than invested asset. With the adoption of the specifications of the qualifying life insurance contracts, the revisions also require disclosure of the amount of the cash surrender value that is within an investment vehicle by investment category.

  This disclosure is proposed to be captured in Note 21 – Other as follows:

  > *The Company is the owner and beneficiary of life insurance policies included in [name of Assets line] at their cash surrender values pursuant to SSAP No. 21, paragraph 6. At December 31, 2018, the cash surrender value in an investment vehicle is $_____, and is allocated into the following categories based on primary underlying investment characteristics: x% bonds, x% stocks, x% mortgage loans, x% real estate, x% cash and short-investments, x% derivatives and x% other invested assets. (Investments in private funds / hedge funds shall be reported as other invested assets.)*

- <u>Agenda Item 2018-27: SSAP No. 48 Entities' Loss Tracking</u> – This agenda item specifies that a *SSAP No. 48—Joint Venture, Partnership, Limited Liability Companies* entity shall be included in the loss-tracking disclosure previously adopted *SSAP No. 97—Subsidiary, Controlled or Affiliated Entities*. This item is being addressed in blanks proposal 2018-30BWG, but the inclusion of SSAP No. 48 entities in Note 10.O shall be reflected for year-end 2018.

- <u>Agenda Item 2018-17: Structured Settlements</u> – This agenda item specifies that periodic-certain structured settlement income streams acquired in accordance with all state and federal laws are permitted as admitted assets under *SSAP No. 21—Other Admitted Assets.* The agenda item specifies that these items shall be separately reported as "any other class of asset" on Schedule BA, unless the structured settlement can be aggregated with other structured settlements with similar terms and payout streams. Reporting on this line is consistent with existing concepts for Schedule BA reporting, but a blanks proposal is expected in 2019 to include these items as examples for inclusion in the any other class of asset reporting line.

- <u>Agenda Item 2018-15: Additional Elements Under the Tax Cuts and Jobs Act –</u> This agenda item resulted in *INT 18-03: Additional Elements Under the Tax Cuts and Jobs Act* and provides accounting and reporting guidance for the repatriation transition tax (RTT), the Global Intangible Low-Taxed Income (GILTI), and the Alternative Minimum Tax (AMT) Credit. This guidance requires disclosure of the repatriation transition tax, and the timing of payments, as well as the treatment of AMT credit as a deferred tax asset or current tax recoverable, and information on the AMT credit carryforward. This disclosure is being addressed in blanks proposal 2018-28BWG, but is required year-end 2018 in Note 9:

<u>H. Repatriation Transition Tax (RTT)</u>

- RTT owed under the TCJA.

- Schedule of payments made and expected future payments to satisfy the RTT liability. This disclosure shall explicitly identify whether the insurance entity has remitted full payment of the RTT, or whether the reporting entity is electing to pay the liability under the permitted installments. If the reporting entity fully remitted the RTT, disclosure of the RTT and the remitted payment is only required in the year-end 2018 financial statements. Reporting entities electing to make installment payments shall include the disclosure beginning in the year-end 2018 financial statements and continuing through the year-end statutory financial statements for the year in which the last installment payment was remitted.

<u>I. Alternative Minimum Tax (AMT) Credit</u>

- Identification of whether the AMT credit was recognized as a current year recoverable or Deferred Tax Asset (DTA).

- The balance of the AMT credit carryforward as of the beginning of the year; the amount of the AMT credit recovered during the year; other current year adjustments to the AMT credit carryforward; the balance of the AMT credit carryforward at the end of the year; the amount, if any, by which the ending balance has been reduced for sequestration; and the amount, if any, by which the reporting entity has elected to nonadmit. (This disclosure intends to capture any nonadmittance of the AMT Tax Credit by the reporting entity prior to application of the DTA admittance limitations reflected in SSAP No. 101.)

  (These disclosures shall be made on an accrual basis beginning in the 2018 year-end statutory financial statements and continuing through the year-end statutory reporting period in which the AMT credit is fully utilized / received.)

	Amount
(1) Gross AMT Credit Recognized as:	
a. Current year recoverable	$ ....
b. Deferred tax asset (DTA)	$ ....
(2) Beginning Balance of AMT Credit Carryforward	$ ....
(3) Amounts Recovered	$ ....
(4) Adjustments	$ ....
(5) Ending Balance of AMT Credit Carryforward (5=2-3-4)	$ ....
(6) Reduction for Sequestration	$ ....
(7) Nonadmitted by Reporting Entity	$ ....
(8) Reporting Entity Ending Balance (8=5-6-7)	$ ....

Note: The disclosure for Nonadmitted by Reporting Entity (Line 7) intends to capture any nonadmittance of the AMT Tax Credit by the reporting entity prior to application of the DTA admittance limitations reflected in SSAP No. 101. The Reporting Entity Ending Balance (Line 8) reflects the amount of AMT Credit recognized by the reporting entity. This amount may be further reduced by DTA admittance limitations required in SSAP No. 101.

Please contact NAIC staff Julie Gann (jgann@naic.org), Robin Marcotte (rmarcotte@naic.org), Fatima Sediqzad (fsediqza@naic.org) or Jake Stultz (jstultz@naic.org) if you have any questions.

Cc: Mary Caswell, Calvin Ferguson, Julie Gann, Robin Marcotte and Fatima Sediqzad

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