

To: Chief Financial Regulators
From: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Re: Filing Process for Subsidiary, Controlled and Affiliated (SCA) Entities
Date: January 19, 2017

In 2016, the Statutory Accounting Principles (E) Working Group adopted revisions to *SSAP No. 97—Subsidiary, Controlled and Affiliated Entities* to incorporate information on the filing of SCAs with the NAIC. Historically, this filing guidance has been included within the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*; however, in response to several questions and requests for clarification, the Working Group and the Valuation of Securities (E) Task Force agreed to move this guidance to *SSAP No. 97*.

With the placement change of the filing guidance into *SSAP No. 97*, the Working Group also adopted revisions to clarify the guidance, as well as incorporate exclusions to the filing guidance. The intent of this memorandum is to communicate the updated filing instructions with all states and reporting entities that have reported an SCA on Schedule D-6-1.

A. Overview of SCA Filing Requirements:

- Investments in SCAs in which the reporting entity has an equity interest (common or preferred stock) are subject to the filing guidance. (Exclusions are detailed in subsections below.)
- All SCA filings and related documentation shall be entered into the NAIC VISION Database (a “Sub 1” filing).
- A Sub 1 filing shall occur within 30 days of acquiring an SCA. This filing includes information on the acquired company (SCA), the acquired value, the anticipated value of the SCA that will be reported by the reporting entity, the valuation method applicable pursuant to *SSAP No. 97*, information on the context of the transaction, and information on the economic and business motivations for the transaction.
- A Sub 2 filing occurs annually, beginning the year of and/or after initial acquisition as long as the reporting entity holds the SCA investment. For a Sub 2 filing, the reporting entity shall submit, by June 30th of that filing year, supporting documentation (including audited financial statements) supporting the value of the SCA investment. For a Sub 2 filing, the NAIC SCA Analysts review the documentation, and approve a value for the SCA. (The recorded value is subject to various assessments. Please review *SSAP No. 97* for the valuation adjustments required based on the valuation method of SCA.)

B. General Filing Exclusions – The following SCAs are not required to be filed (excluded from both Sub 1 and Sub 2):

- Investments in U.S. insurance SCA entities
- Investments captured within the scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*

C. Limited Exclusions for Nonadmitted, Zero-Value and Immaterial SCAs:

- Unless excluded in Section B (above), all SCAs shall be initially filed as a Sub 1 in VISION.

- SCA Investments that are nonadmitted or reported with a zero value, for the entire annual reporting period, are excluded from the Sub 2 filing requirements.
- Immaterial SCA investments are not automatically excluded from the Sub 2 filing requirements, but can be excluded from the Sub 2 filing process if an exemption is granted by the domiciliary regulator of the SCA's insurance reporting entity.

D. Limited-Time Filing Fee Waiver:

- With the requirement for all SCAs to have a Sub 1 in VISION, it was identified that historical, nonadmitted and zero-value SCAs may not have ever been filed with the NAIC. (Although the guidance in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* did not provide a filing exclusion for these SCAs, it was noted that several reporting entities may have been under the assumption that they did not need to file and domiciliary states may have been in agreement.)
- With clarification that all SCAs (except those excluded in Section B) shall have a Sub 1 filing in VISION, the NAIC is allowing historical (acquired before 2016) nonadmitted or zero-value SCAs to be filed at no charge. This is a limited time exception for filings submitted between **January 1, 2017, and September 30, 2017**. Filings submitted during this time frame, meeting the specific parameters, will not be charged a fee. Any applicable fees charged for qualifying Sub 1 filings filed prior to the noted time frame will not be reimbursed. Qualifying Sub 1 filings received after September 30, 2017, or Sub 1 filings that do not qualify (e.g., historical SCA has been reported with an admitted value in the financial statements) will incur the standard filing fee.

E. SCA Filing Assistance

Please contact the NAIC with any questions on the SCA filing requirements or with questions on the VISION database:

- VISION Assistance: securitiessupport@naic.org
- SCA Filing Requirements: Please contact Fatima Sediqzad, SCA Valuation and Accounting Policy Advisor (fsediqzad@naic.org). Filing instructions, FAQs and SCA documents are available on the NAIC SCA Web page:

http://www.naic.org/sca_subsidiary_controlled_affiliated.htm

Thank you for considering the information within this memorandum. Please contact NAIC staff of the Statutory Accounting Principles (E) Working Group with questions on the statutory accounting and reporting of SCAs under SSAP No. 97: Julie Gann (jgann@naic.org), Robin Marcotte (rmarcotte@naic.org) or Fatima Sediqzad (fsediqzad@naic.org).

G:\DATA\Stat Acctg\1. Statutory\E. Referrals\2017\SAPWG to All States - SCA Filing Process.docx