OVERVIEW AGENDA

HEARING AGENDA

1. SAPWG Hearing – Adoption of Minutes—Dale Bruggeman (OH)  

2. SAPWG Hearing – Review and Adoption of Non-Contested Positions – SSAP Revisions—Dale Bruggeman (OH)
   - Ref #2018-26: SCA Loss Tracking – Accounting Guidance  
   - Ref #2018-38: Prepayment to Service and Claims Adjusting Providers  
   - Ref #2019-32: Look-Through with Multiple Holding Companies  
   - Ref #2019-35: Update Withdrawal Disclosures  
   - Ref #2019-43: ASU 2017-11, EPS, Distinguishing Liabilities from Equity, Derivatives & Hedging  
   - Ref #2019-48: Disclosure Update for Reciprocal Jurisdiction Reinsurers  
   - Ref #2019-46: ASU 2016-14, Presentation of Financial Statements of Not-for Profit Entities

   - Ref #2019-04: SSAP No. 32 – Investment Classification Project  
   - Ref #2019-08: Reporting Deposit Type Contracts  
   - Ref #2019-38: Financing Derivatives  
   - Ref #2019-40: Reporting of Installment Fees and Expenses  
   - Ref #2019-41: Eliminating Financial Modeling Process

4. SAPWG Hearing – Review of Comments on Exposed Items—Dale Bruggeman (OH)
   - Ref #2019-12: ASU 2014-17, Business Combinations, Pushdown Accounting  
   - Ref #2019-14: Attribution of Goodwill  
   - Ref #2019-20: Rolling Short-Term Investments  
   - Ref #2019-42: Cash Equivalent – Cash & Liquidity Pools  
   - Ref #2019-24: Levelized and Persistency Commission  
   - Ref #2019-33: SSAP No. 25 – Disclosures  
   - Ref #2019-34: Related Parties, Disclaimer of Affiliation and Variable Interest Entities  
   - Ref #2019-36: Expand MGA and TPA Disclosures  
   - Ref #2019-37: Surplus Notes – Enhanced Disclosures  
   - Ref #2019-39: Acceptable Collateral for Derivatives  
   - Ref #2019-47: VM 21 Grading  
   - Ref #2019-49: Retroactive Reinsurance Exception

Comment Letters
6. SAPWG Meeting – Maintenance Agenda – Pending List—Dale Bruggeman (OH)
   - Ref #2020-01: Update / Remove References to SVO Listings
   - Ref #2020-02: Accounting for Bond Tender Offers
   - Ref #2020-03: Enhanced Goodwill Disclosures
   - Ref #2020-04: Commissioner Discretion in the Valuation Manual
   - Ref #2020-05: Repeal of the Affordable Care Act Section 9010 Assessment
   - Ref #2020-06EP: Editorial and Maintenance Update
   - Ref #2020-07: Change to the Summary Investment Schedule
   - Ref #2020-08: ASU 2016-20: Technical Corrections & Improvements – Topic 606
   - Ref #2020-09: ASU 2018-18: Collaborative Arrangements – Topic 808
   - Ref #2020-10: ASU 2017-14—Amendment to SEC Paragraphs in Topic 220, Topic 605 and Topic 606
   - Ref #2020-11: ASU 2020-02—Amendments to SEC Paragraphs in Credit Losses and Lease

7. SAPWG Meeting – Maintenance Agenda – Active List—Dale Bruggeman (OH)
   - Ref #2019-21: SSAP No. 43R

8. SAPWG Meeting – Any Other Matters Brought Before the Working Group—Dale Bruggeman (OH)
   - Reference Rate Reform - LIBOR
   - Ref #2016-20: Credit Losses
   - Risk Corridors – Supreme Court
   - SAPWG Referrals from the VOSTF
   - Process Update for SCA Filing Reviews
   - Review of GAAP Exposures

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ROLL CALL

Dale Bruggeman, Chair  Ohio  Judy Weaver  Michigan
Carrie Mears, Vice Chair  Iowa  Doug Bartlett  New Hampshire
Richard Ford  Alabama  Tom Dudek  New York
Kim Hudson  California  Joe DiMemmo  Pennsylvania
Kathy Belfi  Connecticut  Doug Slape / Jamie Walker  Texas
Dave Lonchar  Delaware  Doug Stolte / David Smith  Virginia
Eric Moser  Illinois  Amy Malm  Wisconsin
Caroline Brock / Stewart Guerin  Louisiana

NAIC Support Staff: Julie Gann, Robin Marcotte, Jim Pinegar, Fatima Sediqzad, Jake Stultz

REVIEW AND ADOPTION OF MINUTES
1. Fall National Meeting Minutes - (Attachment 1)
2. January 8, 2020 Conference Call - (Attachment 2)

REVIEW AND ADOPTION of NON-CONTESTED POSITIONS – SSAP REVISIONS
The Working Group may individually discuss the following items, or may consider adoption in a single motion:

1. Ref #2018-26: SCA Loss Tracking – Accounting Guidance
2. Ref #2018-38: Prepayment to Service and Claims Adjusting Providers
3. Ref #2019-32: Look-Through with Multiple Holding Companies
4. Ref #2019-35: Update Withdrawal Disclosures
5. Ref #2019-43: ASU 2017-11, EPS, Distinguishing Liabilities from Equity, Derivatives & Hedging
8. Ref #2019-46: ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities

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Summary:
During the 2019 Fall National Meeting, the Working Group exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities to update the existing reporting requirements for when a reporting entity has a negative equity value in a SCA investment and has provided a financial guarantee or commitment.

With the exposed revisions, the financial guarantee or commitment will be recognized under SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets and the equity losses of the SCA will stop at zero (thus not to be reported as a negative value) under SSAP No. 97. Revisions in the current exposure reflect modifications previously proposed by interested parties.
Interested Parties’ Comments:
Interested parties have no comment on this item.

Recommended Action:
NAIC staff recommends that the Working Group adopt the exposed revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities as final. With these revisions, the reported equity losses of the SCA would not go negative (thus stopping at zero), however the guaranteed liabilities would be reported to the extent there is a financial guarantee or commitment. The revisions are nonsubstantive, so they will be effective immediately upon adoption. (Adoption at the 2019 Fall National Meeting was contemplated, however the additional exposure allowed more time to review the industry edits as well as prevent adoption immediately before year-end.)

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<td>4 - Agenda Item</td>
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Summary:
During the 2019 Fall National Meeting, the Working Group exposed revisions to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses, emphasizing existing guidance that loss and loss adjusting expense liabilities shall be established regardless of payments to third parties (except for capitated health claim payments). The liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted. Prepayments to third party administrators, which are not for claims or loss adjusting expense, are “miscellaneous underwriting expenses.” The revisions also added a reference to SSAP No. 84—Health Care and Government Insured Plan Receivables regarding prepayments to providers. The liability for claims on non-capitated payments under managed care contracts are established as an amount necessary to pay the losses/claims irrespective of payments made to third-party administrators.

Interested Parties’ Comments:
Interested parties have no comment on this item.

Recommended Action:
NAIC staff recommends that the Working Group adopt the exposed revisions to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses, which emphasize existing guidance, as final. These revisions clarify that loss and loss adjusting expense liabilities are established regardless of payments to third parties (except for capitated health claim payments).
**Summary:**
During the 2019 Fall National Meeting, the Working Group exposed revisions to SSAP No. 97—Investment in Subsidiary, Controlled and Affiliated Entities emphasizing existing guidance stating that a look-through is permitted through more than one downstream holding company as long as each look-through entity complies with the requirements as directed in SSAP No. 97.

**Interested Parties’ Comments:**
Interested parties have no comment on this item.

**Recommended Action:**
NAIC staff recommends that the Working Group adopt the exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities as final. These revisions clarify that a more-than-one holding company structure is permitted as a look-through if each of the holding companies within the structure complies with the requirements in SSAP No. 97.

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**Summary:**
In November 2018, the Working Group updated the life, health and separate account liquidity disclosures to provide additional granularity of the withdrawal characteristics by product type. These updates were developed by the Financial Stability (Ex) Task Force and were adopted in agenda item 2018-28: Updates to Liquidity Disclosures. These updated liquidity disclosures were reflected in SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance with an effective date of year-end 2019. The updates in this agenda item propose the following minor clarifying edits to the previously adopted disclosures:

1. Add a consistency revision to SSAP No. 51R, ensuring separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures,
2. Correct an identified inconsistency in one of the new disclosures that was added regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%, and
3. Add a cross reference from SSAP No. 56—Separate Accounts to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R as the disclosures include separate account products.

**Interested Parties’ Comments:**
Interested parties have no comment on this item.
Recommended Action:
NAIC staff recommends that the Working Group adopt the exposed revisions to SSAP No. 51R, SSAP No. 56, and SSAP No. 61R as final.

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<td>7 - Agenda Item</td>
<td>No Comment</td>
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<td><strong>ASU 2017-11, Earnings Per Share, Distinguishing Liabilities from Equity, Derivatives &amp; Hedging</strong></td>
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Summary:
During the 2019 Fall National Meeting, the Working Group exposed revisions to SSAP No. 86—Derivatives to reject ASU 2017-11, Accounting for Certain Financial Instruments with Down Round Features; Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Noncontrolling Interests with a Scope Exception and to incorporate guidance into SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets and SSAP No. 72—Surplus and Quasi-Reorganizations for when freestanding instruments shall be recognized as liabilities and not equity.

This ASU primarily addresses the complexity of accounting for certain freestanding financial instruments (or embedded features such as a conversion option) with down round features. A down round feature is a provision in certain financial instruments (most often warrants or convertible instruments) that allows for the reduction in the strike price of the financial instrument if the issuer sells additional shares of common stock for an amount less than the financial instrument’s stated strike price, or if the issuer issues another equity-linked instrument with a strike price below the current strike price of the original financial instrument. Down (financing) rounds typically occur when additional capital is required, but the company’s valuation is now lower than it was in an earlier stock offering. Financial instruments with down round features help protect the holder from declines in the issuer’s share price because if a company issues additional equity shares at a lower price than had been previously sold, the holder is allowed to exercise its purchase option at a lower strike price than was originally stated on the financial instrument.

This agenda item proposed changes to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets and SSAP No. 72—Surplus and Quasi-Reorganizations incorporating key concepts from ASC 480 in that issued, freestanding financial instruments with characteristics of both liability and equity shall be reported as a liability to the extent the instruments embodies an unconditional obligation of the issuer. Several criteria items are proposed however summarized that in the issuer shall report a liability on financial instruments in which they are obligated to transfer assets and the transfer is unavoidable.

Interested Parties’ Comments:
Interested parties have no comment on this item.

Recommended Action:
NAIC staff recommends that the Working Group adopt the exposed revisions to SSAP No. 5R, SSAP No. 72, and SSAP No. 86 as final. These revisions reject ASU 2017-11 in SSAP No. 86 and require that issued, freestanding financial instruments with characteristics of both liability and equity shall be reported as a liability to the extent the instruments embodies an unconditional obligation to the issuer.
Summary:
During the 2019 Fall National Meeting, the Working Group exposed revisions to reject ASU 2013-11 in SSAP No. 101—Income Taxes. As detailed in the agenda item, Topic 740, Income Taxes did not include explicit guidance for the financial statement presentation of an “unrecognized tax benefit” when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit generally reflects a tax position that does not meet the ASC 740 more-likely-than-not recognition threshold, but to a certain extent owes their existence to an uncertain tax position. A more-likely-than-not threshold requires a recognized benefit of having a greater than 50 percent likelihood of being realized upon settlement.

Interested Parties’ Comments:
Interested parties support adoption of this item but note that the following statement should be removed from the document as it is incorrect (see IFRC 23, Uncertainty over Income Tax Treatments):

Convergence with International Financial Reporting Standards (IFRS): N/A

IFRS does not include specific guidance on the presentation of unrecognized tax benefits.

Recommended Action:
NAIC staff recommends that the Working Group adopt the exposed revisions to SSAP No. 101—Income Taxes as final. The revisions reject ASU 2013-11 for statutory accounting. Further, while not affecting statutory guidance, NAIC staff support the removal of the IFRS convergence statement as proposed by interested parties. (This is shown as a tracked change in the agenda item and does not impact the proposed statutory accounting resolution.)

Summary:
During the 2019 Fall National Meeting, the Working Group exposed revisions to SSAP No. 62R—Property and Casualty Reinsurance to reference “reciprocal jurisdictions.” These revisions pertain to the Covered Agreement.

On June 25, 2019, NAIC Executive Committee and Plenary adopted revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) to incorporate relevant provisions from the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” and the “Bilateral Agreement Between the United States of America and the United Kingdom Regarding Insurance and Reinsurance” (collectively referred to as the Covered Agreement).

Interested Parties’ Comments:
Interested parties have no comment on this item.
Recommended Action:
NAIC staff recommends that the Working Group adopt the exposed revisions to SSAP No. 62R—Property and Casualty Reinsurance as final. The revisions incorporate disclosure updates for reinsurers from Reciprocal Jurisdictions.

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<td>10- Agenda Item</td>
<td>No Comments</td>
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Summary:
During the Fall National Meeting, the Working Group exposed revision to reject ASU 2016-14 as not applicable to statutory accounting. The FASB issued ASU 2016-14 to provide more useful information to donors, grantors, creditors, and other financial statements users of not-for-profit (NFP) entities. This update is to improve the current net asset classification requirements and the information presented in financial statements regarding liquidity, financial performance, and cash flows. While several changes were implemented within this ASU, the main provisions include the presentation of two classes of net assets – with donor restrictions and without donor restrictions. Due to complexities regarding the appropriate use of the previous three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) that focused on the absence or presence of donor-imposed restrictions and whether those restrictions were temporary or permanent, this ASU designates presentation of two classes of net assets. Changes in these two classes of net assets are to be reported on the statement of activities.

Interested Parties’ Comments:
Interested parties have no comment on this item.

Recommended Action:
NAIC staff recommends adopting the exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities as not applicable to statutory accounting.
REVIEW of COMMENTS on EXPOSED ITEMS – EXPECTING MINIMAL DISCUSSION

The following items received comments during the exposure period that are open for discussion. NAIC staff has separated these items as limited discussion is expected prior to considering action.

1. Ref #2019-04: SSAP No. 32 – Investment Classification Project
2. Ref #2019-08: Reporting Deposit Type Contracts
3. Ref #2019-38: Financing Derivatives
4. Ref #2019-40: Reporting of Installment Fees and Expenses
5. Ref #2019-41: Eliminating Financial Modeling Process

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Summary:
During the 2019 Fall National Meeting, the Working Group exposed an issue paper and substantively revised SSAP No. 32R—Preferred Stock to revise the definitions, measurement and impairment guidance for preferred stock pursuant to the investment classification project.

Interested Parties’ Comments:
Interested parties substantially agree with the objectives of the proposal and appreciate Staff’s inclusion of revisions for previously communicated comments. We have the following additional comments related to the issue paper:

Scope
Interested parties note that the scope retains, albeit edited, the guidance that preferred stock of subsidiary, controlled and affiliated entities is included and therefore accounted for under the guidance for preferred stock regardless of their SCA character. We acknowledge the current exposure added the requirement to file investments in response to our request. The existing wording in SSAP No. 32 and the exposed language for SSAP No. 32 is below with interested parties suggested clarifying sentence and additional wording (underlined).

Existing language in SSAP No. 32:

**SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles for preferred stock.

2. Investments in preferred stock of subsidiaries, controlled or affiliated entities, including preferred stock interests of certified capital companies (CAPCO) per INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO) are included within the scope of this statement.

Exposed language in SSAP No. 32 and interested parties suggested additional sentence (underlined):

**SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles for preferred stock.

2. Investments in preferred stock of entities captured in SSAP No. 97—Investments in Subsidiaries, Controlled or Affiliated Entities or SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies, as well as preferred stock interests of certified capital companies per INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO) are included within the scope of this statement. The requirement to
file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting, valuation or admissibility under this statement.

Definitions
We are opposed to the proposed edits to the definitions of redeemable and perpetual preferred stock for the following reasons:

a. The change would create a divergence from GAAP that does not exist under the current definitions. Both the definition and accounting for redeemable securities under the current definition aligns with the GAAP definition and accounting for debt securities. Preferred stock accounted for as debt securities under GAAP are those where ability for the holder to collect repayment is assured by the contract terms. We have not identified any benefit to diverging from this view for statutory reporting. The NAIC guidance is different from the GAAP ASC 480 guidance for issuers in multiple ways:

- Preferred stock redeemable at the option of the holder for GAAP is classified as equity (mezzanine equity for SEC filers) but under statutory reporting currently (and proposed) is classified as debt-like in valuation. This conflicts with GAAP ASC 480 guidance for issuers and so it is more straightforward to use the GAAP ASC guidance for holders.
- Alignment of statutory accounting with the ASC 320 guidance for holders results in more equity-like classification in the valuation of preferred stock which is generally more conservative than debt-like classification in valuation.
- Preferred stock redeemable for other reasons outside of issuer’s control is equity (mezzanine equity for SEC filers) for GAAP but equity-like in valuation under current statutory reporting and debt-like in valuation under the proposed statutory reporting.

b. The definition that the NAIC staff has proposed to align to is used in GAAP only for compliance with SEC Regulation S-X, Rule 5-02, which is relevant only to the issuer of preferred stock and does not apply to nonpublic companies. Further, the definitions under Rule 5-02 were designed to include preferred stock with redemption features outside of the control of the issuer in order to provide investors information regarding potential future cash obligations. This is not a relevant consideration for the holder of preferred stock, which is why GAAP does not consider this from the holder’s perspective. From the holder’s perspective, the only relevant consideration is whether the holder is able to redeem its investment, either through a fixed and determinable date, or through a redemption option that the holder can control.

c. Evaluation of whether there are any features that are outside the control of the issuer is a very complex and cumbersome analysis, even on an infrequent basis as is the case under GAAP (as it only applies to issuers). This is because there are a vast number of potential features that could be outside the control of the issuer (i.e., change in control, lapse in SEC registration, failure to pay dividend, etc.). Insurance companies frequently invest in preferred stock and often purchase many such securities each reporting period. Evaluating every preferred stock investment at this level of detail would be operationally burdensome and would provide no additional benefit as the investor is often economically indifferent to many of these low-probability redemption features that are outside of the control of both the issuer and investor.

As a result, we propose the following edits to the proposed definitions:

a. Redeemable preferred stock, which is preferred stock subject to mandatory redemption requirements or whose redemption is outside the control at the option of the issuer holders. Redeemable preferred stock is any stock which 1) the issuer undertakes to redeem at a fixed or determinable price on the fixed or determinable date or dates, whether by operation of a sinking fund or otherwise; or 2) is redeemable at the option of the holders; or 3) has conditions
for redemption which are not solely within the control of the issuer, such as stock which must be redeemed out of future earnings. Preferred stock which meet one or more of these three criteria would be classified as redeemable preferred stock regardless of other attributes such as voting rights or dividend rights:

b. Perpetual preferred stock, which is preferred stocks which are not redeemable or for which redemption is not at the option of the holder are redeemable solely at the option of the issuer (non-redeemable preferred stock). Perpetual preferred stock is any preferred stock which does not meet the criteria to be classified as redeemable preferred stock pursuant to paragraph 3.a.

Balance Sheet Amount
The issue paper discusses carrying perpetual preferred at fair value capped by any stated call price. However, it did not provide guidance on timing for application of the cap. Because the call may not be effective for a period of time, and to ensure that purchases of perpetual preferred stock could still be carried at values greater than par (assuming market values remain above par), we recommend the following revisions to paragraph 10.a.ii, 10.b.ii and the correspondingly to paragraph 11 (underlined):

Paragraphs 10.a.ii and 10.b.ii:

i. Perpetual preferred stocks shall be valued at fair value, not to exceed any currently effective call price.

Paragraph 11:

11. An other-than-temporary (INT 06-07) impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the preferred stock in effect at the date of acquisition. An assessment of other-than-temporary impairment shall occur whenever mandatory redemption rights or sinking fund requirements do not occur. A decline in fair value which is other-than-temporary includes situations where the reporting entity has made a decision to sell the preferred stock prior to its maturity at an amount below its carrying value (i.e., amortized cost). If it is determined that a decline in the fair value of a redeemable preferred stock is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the redeemable preferred stock’s carrying value and its fair value, not to exceed any currently effective call price, at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7.

Income
The issue paper clarifies the guidance on dividends on preferred stock. Specifically, paragraph 14 states:

14. Dividends on preferred stock shall be recorded as investment income for qualifying preferred stock on the ex-dividend date with a corresponding receivable to be extinguished upon dividend settlement.”

Interested parties request clarification on the use of the term “qualifying” preferred stock as the term is not defined within the issue paper or within the new glossary of terms. If the inclusion of the word “qualifying” was unintentional, interested parties recommend deleting the word from paragraph 14 to avoid confusion.

Recommended Action:
NAIC Staff recommends that the Working Group adopt the issue paper and SSAP with modifications suggested by interested parties and as further detailed below. It is proposed that the substantive revisions be effective as of January 1, 2021. (If preferred, the Working Group could re-expose the issue paper and SSAP with the proposed edits and the proposed effective date.) (Although NAIC staff does not expect significant changes from this adoption, a January 1, 2021 effective date has been proposed to allow the guidance to take effect at the start of a reporting year. An earlier effective date could be considered.)
Overview of Proposed Modifications to Exposed Issue Paper and SSAP:

- Definitions: After further consideration, NAIC staff are supportive of the changes suggested by interested parties as they align with the original objective of preferred stock classification and reflect the expected economics of the investment. This change, and the differences from the GAAP definitions has been detailed in the issue paper for future reference.

- Reference to call price: NAIC staff agree with the interested parties’ proposed language regarding the fair value reporting being capped by any currently effective call price. Original language states *any stated call price*, however as call terms are generally not infinite, and adding language to note *any currently effective call price* is recommended.

- Dividends: Interested parties commented on the use of the word “qualifying” in paragraph 14, which states that “dividends on preferred stock shall be recorded as investment income for qualifying preferred stock on the ex-dividend date with a corresponding receivable to be extinguished upon dividend settlement.” The use of “qualifying” was to relay the fact that only preferred stock eligible for dividends, shall accrue investment income; meaning only preferred stock owned before the ex-dividend date qualify for dividends. For clarification purposes, NAIC staff has edited the description to include “dividend eligible” as a descriptor, rather than “qualifying.”

- Scope: In addition to the comments from interested parties to clarify the impact of SSAP No. 97 filing requirements to preferred stock held, informal comments were received sharing that certain legal entities, specifically those captured in SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies, do not issue preferred stock in legal form, but instead issued identical instruments labeled preferred units, interests, or shares. For clarification purposes and to explicitly provide guidance that preferred shares of joint ventures and limited liability entities are to be reported the same as preferred stock, NAIC staff has proposed a footnote highlighting this distinction to ensure only these instruments in which operate in a manner identical to preferred stock are captured in this statement.

**Proposed Edits** *(The edits highlighted in grey below, show the changes from the prior exposure. The revisions are also shown in the issue paper and SSAP attachments.)*

1. Investments in preferred stock[2] of entities captured in SSAP No. 97—Investments in Subsidiaries, Controlled or Affiliated Entities or SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies, as well as preferred stock interests of certified capital companies per INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO) are included within the scope of this statement. The requirement to file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting, valuation or admissibility under this statement.

   **Proposed footnote:**
   
   New Footnote[3]: Certain legal entities captured in SSAP No. 48, do not issue preferred stock in legal form, but instead issue identical instruments labeled preferred units, interests, or shares. These instruments shall be captured in this statement provided they meet the structural characteristics as defined in paragraph 3. Additionally, these instruments shall not be in-substance common stock is which the holder has risk and reward characteristics that are substantially similar to common stock.

3. Preferred stock, which may or may not be publicly traded, is a security that represents ownership of a corporation and gives the holder a claim, prior to the claim of common stockholders on earnings and also generally on assets in the event of liquidation. Most preferred stock pays a fixed dividend that is paid prior to the common stock dividend, stated in a dollar amount or as a percentage of par value. Preferred
stock does not usually carry voting rights. Preferred stock has characteristics of both common stock and debt. Preferred stock shall include:

a. Redeemable preferred stock, which is preferred stock subject to mandatory redemption requirements or whose redemption is outside the control at the option of the holders. Redeemable preferred stock is any stock which 1) the issuer undertakes to redeem at a fixed or determinable price on the fixed or determinable date or dates, whether by operation of a sinking fund or otherwise; or 2) is redeemable at the option of the holders; or 3) has conditions for redemption which are not solely within the control of the issuer, such as stock which must be redeemed out of future earnings. Preferred stock which meet one or more of these three criteria would be classified as redeemable preferred stock regardless of other attributes such as voting rights or dividend rights.

b. Perpetual preferred stock, which is preferred stocks which are not redeemable or for which redemption is not at the option of the holder are redeemable solely at the option of the issuer (non-redeemable preferred stock). Perpetual preferred stock is any preferred stock which does not meet the criteria to be classified as redeemable preferred stock pursuant to paragraph 3.a.

(Note – This definition will also be updated in the glossary.)

10. Preferred stock shall be valued based on (a) the underlying characteristics (redeemable, perpetual or mandatory convertible), (b) the quality rating expressed as an NAIC designation, and (c) whether an asset valuation reserve (AVR) is maintained by the reporting entity:

a. For reporting entities that do not maintain an AVR:

   i. Highest-quality or high-quality redeemable preferred stocks (NAIC designations 1 and 2) shall be valued at amortized cost. All other redeemable preferred stocks (NAIC designations 3 to 6) shall be reported at the lower of amortized cost or fair value.

   ii. Perpetual preferred stocks shall be reported at fair value, not to exceed any currently effective stated call price.

   iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, not to exceed any stated call price, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.

   iv. For preferred stocks reported at fair value, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

b. For reporting entities that maintain an AVR:

   ii. Highest-quality, high-quality or medium quality redeemable preferred stocks (NAIC designations 1 to 3) shall be valued at amortized cost. All other redeemable preferred stocks (NAIC designations 4 to 6) shall be reported at the lower of amortized cost or fair value.

   iii. Perpetual preferred stocks shall be valued at fair value, not to exceed any currently effective stated call price.

   iv. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, not to exceed any stated call price, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
v. For preferred stocks reported at fair value, the accounting for unrealized gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve (SSAP No. 7).

11. An other-than-temporary (INT 06-07) impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the preferred stock in effect at the date of acquisition. An assessment of other-than-temporary impairment shall occur whenever mandatory redemption rights or sinking fund requirements do not occur. A decline in fair value which is other-than-temporary includes situations where the reporting entity has made a decision to sell the preferred stock prior to its maturity at an amount below its carrying value (i.e., amortized cost). If it is determined that a decline in the fair value of a redeemable preferred stock is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the redeemable preferred stock’s carrying value and its fair value, not to exceed any currently effective call price, at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7.

14. Dividends on preferred stock shall be recorded as investment income for qualifying-dividend eligible preferred stock on the ex-dividend date with a corresponding receivable to be extinguished upon dividend settlement. Dividends received shall be recognized in the form received (e.g., cash, preferred stock, common stock) at fair value with differences between fair value and the dividend receivable recognized as gains or losses. Subsequent treatment shall follow the statement that addresses the type of asset received. For example, dividends received in the form of common stock shall be accounted for and reported in accordance with SSAP No. 30R—Unaffiliated Common Stock.

Discussion on Definition Change:
NAIC staff’s original intent was to align investment definitions with common industry definitions or those specified by U.S. GAAP. The definition proposed by NAIC staff was made with the understanding that preferred stock is either redeemable or perpetual. While the issue paper does mention some stock is labeled as “redeemable perpetual preferred stock,” distinctions are made in the prospectus as to its true underlying characteristics (thus being redeemable or perpetual). In general, NAIC staff continue to believe that for a majority of preferred stock issuances, a share which is redeemable at the option of the holder is by definition redeemable outside (or not solely within) the control of the issuer – thus the actions are mutually exclusive. However, interested parties cited guidance for additional circumstances in which, through legal technicalities, could create a third class of preferred shares – those redeemable outside the control of the issuer and holder. Since the definition refers to “outside the control of the issuer” as a determination for classifying a preferred share as redeemable (reported at amortized cost), certain circumstances which are technically “not solely within the issuer’s control” could cause shares to be reclassified to redeemable which were originally categorized as perpetual (reported at fair value). ASC 480-10 provides a few of these examples as: change in state law, the issuer fails to achieve certain project milestones, the issuer fails to pay specified dividends, the issuer experiences a change in credit rating, etc. As such, although the definitions differ slightly from U.S. GAAP definitions, NAIC staff are supportive of the changes suggested by interested parties as they align with the original objective of preferred stock classification and reflect the expected economics of the investment. (The issue paper includes discussion of this change.)
Summary:
During the 2019 Fall National Meeting, the Working Group exposed this agenda item to gain further clarification regarding circumstances when guaranteed investment contracts (GICs), or other deposit-type contracts, are reported in Exhibit 5 - Life Contracts or Exhibit 6 - Accident and Health Contracts, instead of Exhibit 7 – Deposit-Type Contracts.

This agenda item: 1) exposed revisions for an excerpt on Exhibit 5 (to disclose cases when a mortality risk is no longer present or a significant factor – i.e. due to a policyholder electing a payout benefit), 2) requested feedback on circumstances where a morbidity risk is no longer present or a significant factor for Exhibit 6 items and whether a similar footnote disclosure would be appropriate, and 3) requested industry input for instruction clarifications regarding the classifications of deposit-type contracts captured in Exhibit 7.

Interested Parties’ Comments:
Interested parties support the proposed Exhibit 5 footnote which, among other things, would provide clarification on contracts where a mortality risk is no longer present or a significant factor.

With respect to the implementation of additional disclosures for Exhibit 6, interested parties believe that the current product disaggregation in Exhibit 6 is sufficient to analyze the risks present in the subject contracts, and would suggest no changes.

Interested parties have no additional clarifications for Exhibit 7 instructions – we believe the current instructions are sufficiently clear for deposit type contracts.

Recommended Action:
NAIC staff agree with the assessments made by interested parties regarding Exhibit 5, Life Contracts and Exhibit 6, Accident and Health Contracts. While an update is not required for statutory accounting, NAIC staff recommends adopting the proposed edits in the agenda item with a Blanks proposal to add the footnote to disclose when a mortality risk is no longer present. (NAIC staff is suggesting a minor change to what was exposed as shaded below.)

Proposed Exhibit 5 Footnote:

Included in the above table are amounts that originally contained a mortality risk. Amounts in Column 2, that no longer contain a mortality risk are $__________ in Column 2 (Life Insurance), $__________ in Column 2 (Annuities), $__________ (Supplementary Contracts with Life Contingencies), $__________ (Accidental Death Benefits), $__________ (Disability – Active Lives), $__________ (Disability – Disabled Lives), $__________ (Miscellaneous Reserves).

The recommendation to improve the instructions for Exhibit 7 classification was received from the NAIC staff for the Financial Stability (Ex) Task Force. If there is a continued desire to improve the existing definitions, consideration will occur in a separate agenda item, or perhaps in a sole Blanks proposal.
Summary:
During the Fall National Meeting, the Working Group exposed revisions to SSAP No. 86—Derivative to require gross reporting of derivative activity for financing derivative transactions. A financing derivative transaction is one in which the premium to acquire the derivative is paid throughout the derivative term or at maturity of the derivative. With the accounting and reporting that has been utilized by some companies, the associated “cash flows” (related to the derivative obtained versus the premium liability owed) are netted, generally resulting with zero-value reporting at inception. Over the course of the derivative term, an unrealized loss is recognized for changes in the present value of the premium liability (increase), which may be offset by any value change in the underlying derivative (increase or decrease). (With derivative financing, a gain would only ever be recognized if the fair value change of the derivative exceeded the cost of the derivative.) When the derivative matures, the calculation of realized gains and losses reflects the deferred cost (amount owned), adjusted for any actual fair value change.

In addition to revisions to SSAP No. 86, the exposure suggested potential Blanks revisions and potential RBC changes to consider the unpaid premium similar to collateral in determining RBC.

Interested Parties’ Comments:
Interested parties request the exposure be given an effective date of at least January 1, 2021. The exposure represents a significant change to how certain companies account for derivatives and must be implemented in our investment systems prior to adoption. Interested parties do not believe the assets and liabilities under this exposure meet the right to offset criteria in SSAP No. 64—Offsetting and Netting of Assets and Liabilities, because they originate within the same contract. Additionally, we believe the netting guidance outlined in paragraph 19c would be difficult to implement and recommend it be removed.

Recommended Action:
NAIC staff recommends adopting the exposed nonsubstantive revisions to SSAP No. 86—Derivatives with the proposed edits from interested parties to delete paragraph 19c and with the suggested effective date of January 1, 2021. The revisions ensure consistency 1) in the gross reporting of derivatives - without inclusion of financing components, and 2) in reporting amounts owed to / from the reporting entity from the acquisition or writing of derivatives. NAIC staff highlights that the concepts are consistent with existing statutory accounting guidelines, but these revisions will clarify the guidance and improve uniform application across the industry. With adoption, NAIC staff recommends Blanks proposals and referrals to Capital Adequacy (E) Task Force to consider the Blanks and RBC revisions.

Although limited comments were received, if preferred, the agenda item could be re-exposed, with the distribution of the referral / Blanks proposal. With a proposed January 1, 2021 effective date, there is time to incorporate the SSAP No. 86 revisions as well as Blanks / RBC changes.

Pursuant to the Interested Parties’ comments, paragraph 19c would be deleted:
(This is a new section that was proposed in SSAP No. 86.)

Derivative Premium (New Section – All Other Sections Renumbered Accordingly)

19. Derivative premium is the amount paid (acquired derivative) or received (written derivative) to enter into a derivative contract. At inception, the premium generally represents the fair value of the derivative. Derivative premium that is not paid or received at inception represents a liability or
Derivatives with premiums not remitted at acquisition are considered “financed derivatives.” Financed derivatives shall be reported in accordance with the following provisions:

a. At acquisition and subsequently, the gross reported fair value of the derivative shall exclude the impact of financing premiums. Only market changes in the actual fair value of the derivative shall be reflected as unrealized gains or losses.

b. At acquisition and subsequently, premiums payable (acquired derivative) and premiums receivable (written derivatives) shall be separately reported as “payable for securities” and “receivables for securities.”

c. If premium payable or receivable meet the requirement for a valid right of setoff with the derivative in accordance with SSAP No. 64, the derivative asset can be reduced by a premium payable, and a derivative liability can be reduced by a premium receivable for overall reporting on the balance sheet. This offset provision does not permit a derivative asset to be reported as a derivative liability (or vice versa) due to premium payable or receivable. Rather, once a derivative asset (or liability) is fully reduced by a premium liability (or receivable), any remaining premium liability (or receivable) shall be reported as a “payable for security” or “receivable for security” pursuant to paragraph 19.b. This net balance sheet reporting does not impact the gross presentation of open derivatives on Schedule DB-A or Schedule DB-B. If reported net on the balance sheet due to a valid right to offset, the offsetting adjustment shall be shown on schedule DB-D and the SSAP No. 64 disclosures are required.

### Summary:

During the 2019 Fall National Meeting, the Working Group exposed revisions to SSAP No. 53—Property and Casualty Contracts—Premiums, to clarify the application of the installment fee guidance. SSAP No. 53, paragraph 6, provides specific guidance that allows for installment fees that meet specified criteria to be excluded from premium and reported as “other income.” The specified criterion provides that the installment must be avoidable by the policyholder and that the policy would not be cancelled for nonpayment.

The exposed revisions added language to SSAP No. 53, footnote 1, to ensure that the installment fee guidance is narrowly applied, because some reporting entities were seeking to analogize the application of that guidance to exclude other fees from premium income. The revisions clarify that the installment fee guidance should not be used to exclude other fees from being reported as premium.

The exposure also requested comments regarding potential diversity in the application of reporting of the installment fee expenses related to the installment fee (other revenue). A regulator noted that while reporting entities were reporting the installment fees in other income, there was diversity in practice for the related installment fee expenses:

- Most entities were reporting the installment fee expenses in underwriting expenses where there are clear reporting lines for such expenses in the underwriting exhibits.
- Some entities were reporting the installment fee expenses either as a contra amount to finance and service charges not included in premium or as a contra amount to “aggregate write-ins for miscellaneous
income.” The amounts are being reported as “contra” to other income because there is not an explicit reporting line in the property and casualty statement of income for expenses not related to underwriting.

Interested Parties’ Comments:
With regard to the proposed change to emphasize that current guidance in SSAP No. 53 should be interpreted narrowly, interested parties recommend the following revision to the last sentence of the proposed wording in the footnote to SSAP No. 53 paragraph 6:

**Clarification:** Reporting of installment fees in connection with finance and service charges as other income should not be construed as having any bearing on whether such charges are subject to premium taxation, which remains an issue of state law and regulation.

Although interested parties did not survey companies, we believe the assertion by NAIC staff that expenses associated with installment fees are often immaterial is reasonable. We also believe that current reporting of the related installment fee expenses in other underwriting expenses is appropriate. For practical purposes, we do not see the benefit of isolating the expense related to processing the relatively small fee component of a premium billing fee for separate expense reporting purposes. We believe the reporting of expenses should be consistent and would not support the reporting of the related expenses as an “aggregate write-ins for miscellaneous income” or as a contra revenue to “finance and service charges not included in premiums.”

Farmers Insurance Comments:
At the December 2019 meeting, the NAIC exposed and requested comments on the “Reporting of Installment Fees and Expenses” in the financial statements. This guidance allows for installment fees that meet specified criteria to be excluded from premium income, if it is an avoidance amount by the policyholder and the policy would not be cancelled for nonpayment of the installment fees. The guidance is consistent with the footnote in SSAP No.53 (“Property Casualty Contracts – Premiums”) and in line with our current industrywide reporting of this item in the financial statements.

With respect to the reporting of the corresponding “Installment fees related Expenses,” we believe that these associated Expenses should be reported as part of the Other Underwriting Expenses Incurred (“OUE”) on Line 4 of the Statement of Income and as an ancillary to the normal underwriting activities primarily due to immateriality. Such a presentation will allow insurers to report and reconcile the gross Installment fees amount to the corresponding balance reflected in Schedule T, Column 8 as well as in the Write-ins amount on the Statutory Page 14, along with premium tax payments. Currently, there is inconsistency in reporting in the industry, with some companies reflecting these associated Expenses as part of the Other Underwriting Expenses Incurred on Line 4 of the Statement of Income while others reflect such Expenses as part of the Aggregate write-ins for miscellaneous income on Line 14 of the Statement of Income.

However, as we believe others have also pointed out, this guidance specifically addresses fees charged on Installment premiums, but there are other equally nonrefundable “Other fees” charged by many companies, as part of the billing and collection process, but that are not specifically mentioned in this guidance. That is to say, there are “Other Fees” charged by insurers as part of the collection process, all of which, like Installment fees, are not only non-refundable, but are also avoidance amount by the policyholder and would not be cancelled for non-payment of the installment fees, similar to Installment fees.

These nonrefundable “Other fees,” include, but are not limited to:

1. Late fees - fees and expenses charged on flexible/installment plans that are received after a specified cut-off period e.g. 30 days
2. Non-sufficient funds (“NSF”) fees - fees and expenses collected on returned payments due to non-sufficient funds

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3. Reinstatement fees - fees and expenses received on policies that expired and are subsequently reinstated, among others etc.

Currently, there is divergence in reporting in this area of this relatively immaterial amounts for nonstandard and standard writers and therefore need for clarification for consistency in reporting going in.

The reporting issue here then is, where and how to report all of these “Other fees,” excluding Installment fees. Should all these “Other fees” be reported as part of:

a) Other underwriting expense incurred on Line 4 of the Statement of Income
b) Finance and service charges on Line 13 of the Statement of income, akin to installment fees
c) Aggregate write-ins for miscellaneous income on Line 14 of the Statement of income

Typically, most companies report these nonrefundable “Other fees” as “Other income” on Line 14 of the Statement of Income

Consistent with current practice, we also believe all these “Other fees,” net of applicable expenses, if any, should be reported as part of the Aggregate-write-ins for miscellaneous income on Line 14 of the Statement of Income. However, if for some reason this first preference is determined to be untenable, then we believe the next viable alternative could be the “Other underwriting expenses incurred” on Line 4 of the Statement of Income, under the assumption that all these other fees are ancillary to the normal underwriting activities, but defer ultimately decision to the NAIC staff for review and consideration.

Recommended Action:
Because the items under discussion can impact loss ratios and information reported in Schedule P, during the 2019 Fall National Meeting exposure, the Working Group directed notice of the exposure and the request for comments to the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group. Both groups have indicated that they do not expect to have a response on the installment fee expense comments until after the Spring National Meeting. NAIC staff has forwarded the 2020 comments received to both groups.

NAIC staff recommends that the Working Group take the following actions:

1. Adopt the exposed revision with the minor shaded edit from interested parties as illustrated below. This revision clarifies that existing installment fee revenue guidance should be narrowly applied.

2. When comments on the installment fee expense are received from the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group it is recommended that those comments be discussed as a separate agenda item (if needed).

Proposed Revisions for Adoption:

6. Written premiums for all other contracts shall be recorded as of the effective date of the contract. Upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired. Flat fee service charges on installment premiums1 (fees charged to policyholders who pay premiums on an installment basis rather than in full at inception of contract) are reported in the Other Income section of the Underwriting and Investment Exhibit as Finance and Service Charges. Flat fee service charges on installment premiums, which do not meet the requirements outlined in footnote 1 (e.g., policy may be cancelled for non-payment of fee or fee is refundable), shall be recorded as written premium on the effective date of the contract and subject to the unearned premium guidelines included in paragraph 8.
1 If the policyholder elects to pay an installment rather than the full amount or the full remaining balance, the policyholder is traditionally charged a flat fee service charge on the subsequent billing cycle(s). The amount charged is primarily intended to compensate the insurer for the additional administrative costs associated with processing more frequent billings and has no relationship to the amount of insurance coverage provided, the period of coverage, or the lost investment income associated with receiving the premium over a period of time rather than in a lump sum. As described, there is no underwriting risk associated with this service charge. If a policyholder does not pay the service charge, the policy is not cancelled (unlike non-payment of premium), but instead the policy is converted back to an annual pay plan. If a policyholder cancels coverage, the premium is returned but the service charge is not, as the service charge is not a part of premium. Note that this footnote on flat fee service charges on installment premium is intentionally narrow and specific and this guidance should not be applied to other fees or service charges. Clarification Reporting of installment fees in the finance and service charges as other income should not be construed as having any bearing on whether such charges are subject to premium taxation, which remains an issue of state law and regulation.

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<td>SSAP No. 43R (Jim)</td>
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**Summary:**
During the 2019 Fall National Meeting, the Working Group exposed revisions to eliminate the “financial modeling” process from SSAP No. 43R—Loan-backed and Structured Securities. This agenda item is in coordination with a Valuation of Securities (E) Task Force proposal and final action by the Working Group will not be considered until Task Force first takes action on this item.

The current RMBS/CMBS multi-step modeling practice (“financial modeling”) is the only remaining approach that utilizes breakpoints to determine final NAIC designations. In March 2019, agenda item 2018-19 removed the multi-step modeling approach for modified filing exempt (MFE) securities. This change removed the carrying value from the designation determination analysis and investments previously captured in the “MFE” guidance, now utilize the original NAIC designation, without adjustment, to determine the measurement method under SSAP No. 43R and corresponding RBC charges. With elimination of the “MFE” approach, identical securities captured under that guidance now have identical NAIC designations.

**Interested Parties’ Comments:**
Interested parties have no comment on this item at this time.

**Recommended Action:**
NAIC staff recommends that the Working Group defer discussion on this agenda item as the Valuation of Securities (E) Task Force continues review of this topic.

NAIC staff is aware that the Task Force is considering a different proposal with regards to this issue. With the Task Force’s revised approach, the financial modeling approach would be retained, but the NAIC designation (NAIC 1-6) would be mapped to a specific NAIC designation modifier. (For example, an NAIC 1 would be an NAIC 1.D and an NAIC 2 would be an NAIC 2.B.)

If the Task Force moves forward with the altered approach, NAIC staff would recommend disposing this agenda item (Ref #2019-41) with the development of a new agenda item if considered necessary to reflect the new approach. (At this time, revisions to SSAP No. 43R may not be necessary with the altered approach.)
**REVIEW of COMMENTS on EXPOSED ITEMS**

The following items received comments during the exposure period that are open for discussion.

1. Ref #2019-12: ASU 2014-17, Business Combinations, Pushdown Accounting
2. Ref #2019-14: Attribution of Goodwill
3. Ref #2019-20: Rolling Short-Term Investments
4. Ref #2019-42: Cash Equivalent – Cash & Liquidity Pools
5. Ref #2019-24: Levelized and Persistency Commission
7. Ref #2019-33: SSAP No. 25 – Disclosures
8. Ref #2019-34: Related Parties, Disclaimer of Affiliation and Variable Interest Entities
9. Ref #2019-36: Expand MGA and TPA Disclosures
12. Ref #2019-47: VM 21 Grading
13. Ref #2019-49: Retroactive Reinsurance Exception

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<td>2019-12</td>
<td>ASU 2014-17, Business Combinations, Pushdown Accounting</td>
<td>17 - Agenda Item</td>
<td>Comments Received</td>
<td>IP – 6 &amp; 35</td>
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**Summary:**

During the 2019 Fall National Meeting, the Working Group adopted an update clarifying that “goodwill resulting from the acquisition of an SCA by an insurance reporting entity that is reported on the SCA’s financial statements (resulting from the application of pushdown accounting), is limited in the aggregate to 10% of the acquiring entity’s capital.” In continuation of this agenda item, the Working Group exposed revisions to assess ASU 2014-17, Business Combinations – Pushdown Accounting for statutory accounting with a request for comments on whether pushdown shall be rejected, permitted for noninsurance entities, or permitted only for U.S. Securities and Exchange Commission (SEC) registrants.

**Interested Parties’ Comments:**

Interested parties recommend that paragraph 5 of SSAP No. 68 be revised further as marked below to clarify the appropriate valuation that should be used for an acquired entity:

5. A business combination accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with paragraphs 8.b.ii., 8.b.iii. or, 8.b.iv. of SSAP No. 97 shall determine the amount of positive goodwill or negative goodwill created by the combination using the reporting entity’s share of the GAAP net book value of the acquired entity, adjusted to a statutory basis of accounting in accordance with paragraph 9 of SSAP No. 97 in the case of acquired entities valued in accordance paragraphs 8.b.ii. or 8.b.iv. of SSAP No. 97. The GAAP net book value of the acquired entity used in this determination shall reflect the acquisition-date fair values of identifiable assets acquired and liabilities assumed, and goodwill, as recognized in the post pushdown GAAP financial statements of the acquired entity, if applicable. Business combinations accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with, paragraph 8.b.i. of SSAP No. 97 shall determine the amount of positive or negative goodwill created by the business combination using the insurer’s share of the statutory book value of the acquired entity.
Pushdown Accounting

Interested parties note that the GAAP guidance in ASU 2014-17, which was adopted by the SEC in Staff Accounting Bulletin (SAB) 115, provides clear guidance that an acquired entity has the option to apply pushdown accounting in its separate financial statements upon the occurrence of an event in which an acquirer obtains control of the acquired entity. Under applicable GAAP guidance, control generally results when one entity obtains, either directly or indirectly, more than 50 percent of the outstanding voting shares of another entity. This differs from the definition of control under statutory guidance which uses a threshold of 10 percent or more of voting control. As such, under GAAP, there would not be a scenario where an entity would be controlled by multiple owners with 10% or more ownership of outstanding shares.

Whether a company chooses to apply pushdown accounting depends on the facts and circumstances of a particular transaction. In certain situations, pushdown is preferable to eliminate the basis difference between an acquirer and the acquired entity. In other situations, a company may prefer pushdown accounting to better reflect the actual values of the acquired assets and assumed liabilities based on the purchase price of the entity.

When the SEC required pushdown for SEC registrants, there was limited guidance for non-registrants under GAAP which resulted in some non-registrants also applying the SEC pushdown guidance. We believe retaining the optionality for statutory reporting allows for consistency and comparability across both SEC registrants and non-registrants and provides operational efficiency.

The option of not allowing subsequent elections for pushdown accounting is not practicable for SEC registrants that previously elected to use pushdown accounting. In order for such companies to discontinue use of pushdown accounting, a preferability letter would be required for a change in accounting policy to discontinue the use of pushdown accounting. Given that an election to discontinue use of pushdown accounting is not likely preferable, the insurer would be in the position of having to continue using pushdown accounting in order to receive a clean audit opinion on the GAAP financial statements of the SCA. Additionally, while ASC 805, Business Combinations, allows the election to be made for each change in control event, acquirers that report consolidated results may as a practical matter choose pushdown accounting at the subsidiary level to avoid separately tracking assets, and liabilities at two different values in two different ledgers.

As noted in the examples below, and in accordance with the guidance adopted during the December 7, 2019 Working Group meeting, interested parties understand the guidance clarified that all goodwill from an insurance entity’s acquisition of SCAs, regardless of whether pushdown accounting is applied, is subject to the existing 10% admittance limitation. Interested parties have summarized the interpretation of this clarification for an insurance entity’s acquisition of an 8.b.i (example 1), 8.b.ii (example 2a and 2b), 8.b.iii (example 3a and 3b) or 8.b.vi (example 2a and 2b) entity as follows:

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<thead>
<tr>
<th>Example</th>
<th>Type of acquired SCA</th>
<th>Is Pushdown elected?</th>
<th>Where does Goodwill resides?</th>
<th>Admissibility of goodwill limited to 10% of</th>
<th>Is Goodwill required to be amortized?</th>
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<tr>
<td>1</td>
<td>8.b.i</td>
<td>Not permitted per SSAP No. 68 para 6</td>
<td>Insurance entity (Statutory goodwill)</td>
<td>Insurance Entity's Surplus per SSAP No. 68 para 7</td>
<td>Yes per SSAP No. 68 para 8</td>
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After evaluating the accounting for goodwill from the various entities described in paragraph 8.b, we concluded that the NAIC should continue to allow insurers to elect pushdown accounting for acquisitions of non-insurance entities (Option 2) for the following reasons:

1. Statutory goodwill, created when the insurer is the acquirer, is subject to an existing 10% admittance limitation as clarified in the changes adopted by the Working Group during the Fall National Meeting and demonstrated above; therefore, the resulting goodwill from pushdown accounting is subject to the statutory thresholds.

2. Pushdown accounting is consistent with GAAP, prior to ASU 2014-17, for SEC registrants and non-registrants that used pushdown accounting. As noted above, it is not practical to discontinue use of pushdown accounting as an insurer would need to continue the use of pushdown accounting in order to obtain a clean audit opinion on the GAAP financial statements of the SCA.

3. It is important to maintain consistency with current GAAP. Under ASU 2014-17, pushdown accounting may be elected in a later reporting period, after the initial acquisition date. We understand that there may be concerns with electing pushdown at a later reporting period after goodwill was originally determined and reported at initial acquisition date. However, rather than disallowing a later election to apply pushdown accounting, which creates a variance to GAAP, we suggest this could be addressed through changes to SSAP No. 97 to ensure that goodwill is not subsequently increased for statutory reporting, in the event pushdown accounting is elected after the initial acquisition date.

4. The recommendations above would allow the continued use of audited GAAP equity as the statutory carrying value for all non-insurance entities for insurers that previously elected pushdown accounting (both SEC registrants and non-registrants). Additionally, the ability to elect pushdown accounting for future acquisitions retains GAAP equity as the statutory valuation basis for SCAs and avoids restrictions that can impact insurers’ ability to obtain an unqualified opinion on the stand-alone financial statements of SCAs.

If a restriction were placed on the use of pushdown accounting at a future date, those entities that have previously elected pushdown will be forced to separately track assets, and liabilities at two different values in

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<th>8.b.ii or 8.b.iv</th>
<th></th>
<th>Insurance entity (Statutory goodwill)</th>
<th>Insurance Entity’s Surplus per SSAP No. 68 para 7</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2a</td>
<td>No</td>
<td>No</td>
<td></td>
<td>Yes per SSAP No. 68 para 8</td>
<td></td>
</tr>
<tr>
<td>2b</td>
<td>Yes</td>
<td>Yes</td>
<td>SCA (GAAP goodwill)</td>
<td>SCA’s GAAP equity per SSAP No. 97 para 9.d</td>
<td>Yes per SSAP No. 97 para 9.c.iii</td>
</tr>
<tr>
<td>3a</td>
<td>No</td>
<td>No</td>
<td>Insurance entity (Statutory goodwill)</td>
<td>Insurance Entity’s Surplus per SSAP No. 68 para 7</td>
<td>Yes per SSAP No. 68 para 8</td>
</tr>
<tr>
<td>3b</td>
<td>Yes</td>
<td>Yes</td>
<td>SCA (GAAP goodwill)</td>
<td>Insurance Entity’s Surplus per SSAP No. 68 para 7</td>
<td>No *</td>
</tr>
</tbody>
</table>

* See further discussion below related to amortization
two different ledgers as well as address the issue of making a change in accounting policy that may not have preferability.

As a separate point, we suggest changing the heading for Option 2 from “Permission to use pushdown for all non-insurance entities” to “Use of pushdown for all non-insurance entities”, as the term “permission” implies that use of pushdown accounting is a permitted practice under the statutory accounting framework.

**Amortization**

Interested parties reiterate the concern that the revisions from the adopted language (new SSAP No. 68 paragraph 10) would inadvertently require amortization of pushdown goodwill. While staff has noted that amortization may be the proper approach, interested parties believes as it relates to paragraph 8.b.iii entities acquired by an insurance entity where pushdown is applied, there has been diversity in practice.

Interested parties concur with the NAIC’s staff’s position described in the December 2019 Public Hearing Agenda materials:

“(As detailed in the earlier discussion, the minor edit being discussed only focuses on nonadmittance for insurer entity acquired SCAs that have been pushdown. The edit would not mandate amortization for those pushdown situations. The discussion on whether amortization should be required for those situations is proposed to occur after the next exposure.)”

**Recommended Action:**

NAIC staff recommends that the Working Group hear comments from interested parties. However, it is recommended that the Working Group not take action during the Spring National Meeting. Rather, it is anticipated that future discussion will occur during a separate call or a subsequent National Meeting.

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
<th>Agreement with Exposed Document?</th>
<th>Comment Letter Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-14</td>
<td>Attribution of Goodwill</td>
<td>18- Agenda Item</td>
<td>Comments Received</td>
<td>IP – 7 &amp; 39</td>
</tr>
<tr>
<td>SSAP No. 97</td>
<td>(Julie/Fatima)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Summary:**

During the 2019 Fall, the Working Group exposed revisions to SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities*, to clarify that the “assignment” of goodwill is a disclosure element, with revisions to the disclosure requirements for downstream holding companies. The revisions did not dictate the method of assignment, but rather directed that allocation of goodwill to acquired subsidiaries shall be disclosed upon acquisition and cannot change once assigned. The revisions also reflect a change in terminology from “allocation” to “assignment.”

**Interested Parties’ Comments:**

Interested parties note that the December 2019 Public Hearing Agenda materials state:

“It is important to highlight that the clarification edit proposed for adoption consideration is specific to insurance entity acquisitions of SCAs. As such, if an acquisition occurred downstream from the insurance company (by a non-insurance holding company), and the holding company applied pushdown accounting, so that the goodwill was reported at the holding company’s acquired SCA, the proposed edit would not require that push down goodwill to be brought up to the insurance entity’s level and included in the 10% limit.”

Requiring attribution would be onerous and misleading to the users of the financial statements, particularly if the disclosure included detailing GAAP goodwill that is not subject to the 10% limit. Interested parties do not believe
it is necessary to “attribute” goodwill to downstream SCAs of downstream holding companies. We believe that any concerns about the carrying value of the downstream holding company being overstated because it did not push down GAAP goodwill to a downstream SCA that was subsequently sold is mitigated by the fact that GAAP already requires the attribution and derecognition of goodwill associated with the business or SCA that is sold. To layer in a statutory attribution of goodwill is not necessary, overly complex, and may distort the accounting impact of a sale of a downstream SCA.

Therefore, we recommend that the disclosure of GAAP goodwill attributed to downstream SCAs of downstream holding companies focus on actual GAAP goodwill that was pushed down to the downstream SCAs and any statutory goodwill that occurred when the insurer is the acquirer, subject to the existing 10% admittance limitation as illustrated and discussed in the examples above.

**Recommended Action:**
NAIC staff believes that Interested Parties’ may have the incorrect impression regarding this attribution of goodwill agenda item. **This agenda item does not necessarily pertain to pushdown accounting.** Rather, this agenda item pertains to the look-through of downstream holding companies. **If a reporting entity acquires a downstream holding company that qualifies for the “look-through” approach, and the acquired holding company owns three underlying SCAs, the goodwill from the acquisition of the downstream holding company must be attributed to the underlying SCAs.** This is necessary to ensure that goodwill is properly addressed when an underlying SCA is nonadmitted or sold. The reason for the proposed clarification is that instances have been presented in SCA filings in which only one underlying SCA within a “look-through” downstream holding company group qualifies for admittance, however, there is no detail on how goodwill was attributed. In these instances, the full amount of goodwill from the acquisition of the downstream holding company would be nonadmitted. (If the goodwill was pushed down, it would already be a component of the downstream holding company.) **NAIC staff has proposed a provision to exclude “pushdown” goodwill until the decision from the Working Group on that issue has been addressed. If preferred this guidance could be re-exposed, or the Working Group could consider adoption of this disclosure element. (This disclosure element is not proposed to be data-captured.)**

- Scenario 1: In year 1, the downstream holding company is audited, therefore the “look-through” provisions are not used. However, in year 2, the downstream holding company is not audited and qualifies for look-through. If only one of the underlying SCAs is audited, then only the audited SCA can be admitted, and only the goodwill attributed to that SCA can be admitted. (Without attribution of goodwill, then all of the goodwill related to the downstream holding company would be nonadmitted.)

- Scenario 2: In year three, one of the underlying SCAs held by the downstream holding company is sold. The reporting entity needs to know how much of the original goodwill was attributed to this underlying entity in order for it to be removed from the financial statements.

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1 ASC 350-20-40, *Intangibles – Goodwill and Other - Goodwill – Derecognition*, paragraphs 1 and 2:

40-1: When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit shall be included in the carrying amount of the reporting unit in determining the gain or loss on disposal.

40-2: When a portion of a reporting unit that constitutes a business (see Section 805-10-55) or nonprofit activity is to be disposed of, goodwill associated with that business or nonprofit activity shall be included in the carrying amount of the business or nonprofit activity in determining the gain or loss on disposal.
Below is the proposed disclosure included in the last exposure (with slight modifications) that detail the downstream holding company application and the attribution of goodwill:

<table>
<thead>
<tr>
<th>Downstream Holding Company</th>
<th>Carrying Value</th>
<th>Goodwill</th>
<th>Total (Carrying Value + Goodwill)</th>
<th>Total Admitted Value</th>
<th>Total Nonadmitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC Downstream**</td>
<td>$3,000,000</td>
<td>$250,000</td>
<td>$3,250,000</td>
<td>$2,712,500</td>
<td>$537,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name of Look-Through Entity</th>
<th>Audited F/S (Yes / No)</th>
<th>Carrying Value</th>
<th>Assigned Goodwill %*</th>
<th>Assigned Goodwill</th>
<th>Admitted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>XYZ Entity</td>
<td>Yes</td>
<td>2,500,000</td>
<td>85%</td>
<td>$212,500</td>
<td>$2,712,500</td>
</tr>
<tr>
<td>QRS Entity</td>
<td>No</td>
<td>400,000</td>
<td>10%</td>
<td>$25,000</td>
<td>$0</td>
</tr>
<tr>
<td>MNO Entity</td>
<td>No</td>
<td>100,000</td>
<td>5%</td>
<td>$12,500</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,000,000</strong></td>
<td><strong>100%</strong></td>
<td><strong>$250,000</strong></td>
<td><strong>2,712,500</strong></td>
<td></td>
</tr>
</tbody>
</table>

Note: The Total Nonadmitted value for ABC Downstream has been updated as it did not reflect the full value.

Proposed edits to exclude pushdown scenarios from the disclosure:

5. A business combination accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with paragraphs 8.b.i., 8.b.iii. or, 8.b.iv. of SSAP No. 97 shall determine the amount of positive goodwill or negative goodwill created by the combination using the reporting entity’s share of the GAAP net book value of the acquired entity, adjusted to a statutory basis of accounting in accordance with paragraph 9 of SSAP No. 97 in the case of acquired entities valued in accordance with paragraphs 8.b.ii. or 8.b.iv. of SSAP No. 97. If the acquired entity is a holding company and pushdown has not been applied, the purchase price and goodwill shall be calculated to determine the amount of goodwill that should be assigned to the downstream entities that were acquired as part of the holding company acquisition. This is required because a reporting entity that subsequently qualifies and elects to look-through the holding company pursuant to SSAP No. 97, paragraphs 25-26 is only permitted to admit the goodwill attributed to the downstream entities that are admitted through the SSAP No. 97 look-through approach. Information on the assigned goodwill shall be captured in the initial Sub 1 filing to the NAIC for all holding company acquisitions and disclosed in accordance with paragraph 42 if the reporting entity utilizes the look-through approach. Business combinations accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with, paragraph 8.b.i. of SSAP No. 97 shall determine the amount of positive or negative goodwill created by the business combination using the insurer’s share of the statutory book value of the acquired entity.
### Summary:

During the 2019 Fall National Meeting, the Working Group exposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments to incorporate additional principle concepts in the classification of investments as cash equivalents or short-term investments. As detailed in the exposure, the original proposed revisions would have restricted the classification as a cash equivalent or short-term investment for all affiliated SSAP No. 26R—Bond investments, all affiliated and nonaffiliated investments in scope of SSAP No. 43R—Loan-backed and Structured Securities, and all affiliated and non-affiliated investments that would be reported on Schedule BA in the event that 1) the reporting entity does not reasonably expect that the investment will actually terminate or mature within the timeframe permitted for cash equivalent or short-term investment classification, 2) the investment was previously reported as a cash equivalent / short-term investment and the initial maturity timeframes have passed, 3) the investment was sold or matured and the same or substantially similar investment was reacquired within a 1-year timeframe.

As a reminder, this agenda item has been drafted to consider statutory accounting guidance for short-term investment structures that are being purposely designed to mature at or around 364 days (often with affiliates), with the full expectation that the investment structure would be renewed (rolled) continuously for subsequent years. These structures occur because reporting as short-term investments (or cash equivalents) results with the following benefits: 1) More-desirable risk-based capital (RBC) charge, 2) to avoid filing with either the SVO or to avoid obtaining a rating from a credit rating provider, or 3) limited affiliate reporting.

Additionally, this agenda item was exposed to exclude certain cash/liquidity pool’s (as defined in agenda item 2019-42: Cash Equivalent - Cash & Liquidity Pools) from the short-term rolling guidance.

### Interested Parties’ Comments:

Interested parties appreciate the staff’s exclusion of qualifying cash pools from the provisions of the short-term rolling re-exposure. There remain two types of short-term lending arrangements within the scope of the re-exposure that should be addressed separately. We respectfully request that the Working Group give consideration to the broader implications discussed below prior to moving forward with this proposal. Specifically, it might be advantageous to split the exposure into two work streams – one for affiliated investments and another for unaffiliated investments.

### Non-affiliate Short-Term Lending

In the case of non-affiliated loans (i.e., Schedule BA Other Invested Assets), in order to provide appropriate flexibility to both the lender and the borrower, a loan facility may be structured as a short-term obligation. Such short-term obligations permit an insurer to more efficiently deploy its capital and streamline its underwriting process. Specifically, short term, non-affiliated loans: (a) provide the insurer with the ability to review and consider credit and collateral on a regular basis, (b) allow the insurer to reevaluate each investment at maturity and make new investments based on current market conditions if desired, and (c) allow the insurer to consider a renewal with an existing base of knowledge about the borrower and collateral, making the underwriting process more streamlined and allowing for better informed credit decisions. As with any investment, diligent underwriting of the borrower and the collateral, and structuring of the investment with appropriate safeguards is critical and should not deviate from standards used for longer-term investments. These facilities fill a market need for borrowers that require short-term or warehouse-type financings on assets prior to reaching the window for securitization and provide the insurer with attractive risk-adjusted returns relative to other short-term investments.
In this context, interested parties propose that all non-affiliated short-term obligations, obligations in scope of either SSAP No. 26 or SSAP No. 43R, where the counterparty is not an affiliate or related party of the reporting entity, including collateral loans, which meet certain objective criteria should be defined, reported, and monitored in the existing Schedule DA as a non-affiliated short-term investment. In order for a non-affiliated transaction to qualify as short term for reporting purposes, such investment must include the following features:

1) The loan includes a maturity date less than one year from closing at which the borrower has an unconditional repayment obligation and on which the lender has a reasonable expectation that the investment can be terminated and repaid if so desired by the insurer; and

2) Any subsequent renewal is only completed in the sole discretion of BOTH the borrower and the lender.

Given that the transaction is between unaffiliated counterparties, interested parties believe the terms of these transactions, including the interest rate and advance rate, are on arms’ length terms.

Finally, with no obligation at any time to renew a transaction, the reporting entity is required to re-evaluate and re-underwrite the transaction at maturity. If any of the relevant underwriting criteria have changed, the insurer can require repayment or can request adjustments to the terms and conditions to conform to market conditions. If, but only if, both the borrower and lender agree to renew the transaction on the same or adjusted terms, the transaction may be renewed. This process, however, requires an independent credit decision and results in a new transaction.

Interested parties acknowledges the NAIC staff’s concern about the ability of auditors and regulators to discern between renewals that have been re-underwritten and those that have not; however, without an appreciation for the nuanced economic differences of these transactions, interested parties have concerns about unintended consequences of the re-exposure. Consider a transaction in which an entity purchases a GNMA with less than a one-year maturity, which was classified as a short-term investment or cash equivalent and matures/is settled as expected. Shortly after, that entity decides to purchase another GNMA with less than a one-year maturity. As proposed, the guidance precludes short-term investment or cash equivalent reporting for reacquired investments (or substantially similar investments) when purchased within one year from the initial investment. Without further clarification regarding substantially similar investments, or alternative objective criteria like those proposed above, we anticipate that diversity in practice could result. Additionally, regarding the example described, operationally burdensome tracking requirements would be required for entities to ensure appropriate reporting.

Therefore, we believe that unaffiliated SSAP No. 26 investments should be excluded from the scope of this exposure for the reasons discussed above. The scope of this exposure should also continue to exclude other unaffiliated SSAP No. 26 investments such as treasury bills, commercial paper, certificates of deposits and other similar short-term investments since such investments are used for short-term liquidity and do not have long-term investment risk.

**Affiliate Short-Term Lending**

Interested parties believe that the same principles discussed above and in our previous letter apply to affiliated short-term investments to merit continued classification as short term in nature, even when a subsequent short-term investment is re-underwritten to the same borrower within a year. We believe there is already sufficient regulatory oversight on the fundamental objectives, usage and risks of material affiliated transactions to validate the alignment of these vehicles with the fundamental characteristics implied by the statutory short-term investment classification. In this case, prudently managed, governed and executed liquidity optimization across an insurance holding company system can be observed with the current regulatory oversight mechanisms. While re-underwriting may be warranted based on liquidity needs, the risk profile continues to be commensurate with that of short-term investments.

NAIC Guidance should not supersede regulatory oversight. The domiciliary commissioners already have authority to disapprove of material affiliated transactions as deemed necessary. The NAIC Model Holding Company Act (the “Act”), which has been broadly incorporated into state laws, requires filing and domiciliary commissioner approval of affiliated transactions over certain materiality thresholds. As the Act was promulgated by the NAIC, interested
parties believe that through use of the Act, commissioners put in place filing and approval requirements they deemed satisfactory to address their regulatory needs. Through these filings, state regulators have oversight over both the risk elements considered and the methodology utilized by companies in underwriting each material extension of credit within the holding company system. It would run counter to state authority to implement requirements resulting in NAIC guidance that would effectively supersede the authority of domiciliary commissioners or cast doubt, even implicitly, upon states’ ability to appropriately regulate the domiciled insurers with which they are intimately familiar. Principally, the Act allows regulators to verify the appropriateness of the short-term classification of material affiliated investments, providing oversight to ensure consistency in classification between affiliated and unaffiliated short-term investments.

Prudent and appropriately governed liquidity management within a holding company structure enhances insurance company solvency. Appropriately managed, governed and regulator-approved affiliate lending programs create opportunities for liquidity optimization across a holding company system, essentially sharing objectives similar to that of affiliated liquidity pools. This management is necessary due to diversification of product offerings as timing of cash receipts and disbursements will vary across such products and different entities within a holding company system. The ability to prudently draw upon excess liquidity surplus within one entity at a time when another entity has a short-term need for liquidity serves as an immediate buffer against uneconomic alternatives such as forced asset sales or relatively costly external short-term financing. If adopted as written, the exposed guidance could result in entities foregoing this powerful in-house liquidity tool, which enables companies within a holding company system to more effectively manage inherent cash flow timing mismatches, and instead resort to alternatives that would result in an unnecessary drain on capital available to support policyholder obligations.

SSAP 43R—Loan-backed and Structured Securities
Investments in the scope of SSAP 43R, Loan-backed and Structured Securities, have payments that are driven by underlying collateral with modifications that are driven by the performance of the underlying assets and typically overseen by a collateral manager or otherwise laid out in deal documents. In many cases, these instruments also have clean-up call provisions that would remove the investment from the market while the remaining underlying collateral may be repackaged into a re-securitization. The concept of rolling a short-term investment that would be in the scope of SSAP 43R is often-times outside the control of investors in these instruments and possibly part of the normal life cycle of a small portion of the underlying collateral. Because of these characteristics, the interested parties propose that any non-affiliated investment that would qualify within SSAP 43R—Loan-backed and Structured Securities be exempt from the proposed new concepts like what is proposed for non-affiliated investment that would qualify within SSAP 26R—Bonds. Further consideration of affiliated investments that fall within SSAP 43R is recommended, given the underlying assets drive these investments and the other considerations for affiliate short-term lending outlined previously in this response.

Interested parties respectfully requests that the Working Group give consideration to these broader implications prior to moving forward with this proposal. If the Working Group has lingering concerns or appetite for additional elaboration as to the character and traditional efficacy of existing regulatory oversight mechanisms, interested parties would request that staff work with industry to draft materials for future dialogue and examination of this topic.

American Property Casualty Insurance Association (APCIA) Comments:
APCIA writes to highlight our support for the recommendations on this proposal provided in the comment letter of the “Interested Parties” coalition. APCIA and our members regularly participate in the Interested Parties’ discussions and drafting process.

SSAP No. 2R generally requires debt obligations with a maturity date of less than one year to be reported on Schedule DA. However, the proposed revisions to SSAP No. 2R would specify that any investment reported as a short-term obligation which was renewed or extended past its original maturity date would need to be reported as a long-term obligation, and a reporting entity would not be permitted to acquire the same or a substantially similar security within a 1-year time frame unless such security is reported as a long-term obligation. APCIA believes
appropriate safeguards already exist, or could be put in place, to address the concerns underlying this proposal. We support the recommendations of the Interested Parties in the context of both unaffiliated and affiliated short-term loans.

Unaffiliated short-term loans provide important flexibility and efficiencies for insurers. So long as the lender has a reasonable expectation that the investment can terminate and be repaid on the maturity date, and both the borrower and lender have the ability to reevaluate and renew the loan at maturity, we believe unaffiliated short-term loans are properly reported on Schedule DA as a short-term risk asset. As such, APCIA supports the objective criteria proposed by the Interested Parties for determining when an unaffiliated loan qualifies as short term:

1) The loan includes a maturity date less than one year from closing at which the borrower has an unconditional repayment obligation and on which the lender has a reasonable expectation that the investment can be terminated and repaid if so desired by the insurer; and
2) Any subsequent renewal is only completed in the sole discretion of both the borrower and the lender.

In the context of short-term loans between affiliates, the Model Holding Company Act already requires regulatory filing and approval of loans exceeding a materiality threshold. Further, as the Interested Parties’ letter also points out, loans between affiliates are an important mechanism for meeting short-term liquidity needs for an entity within a broader group. Given the importance of insurers being able to utilize loans from affiliates to meet short-term needs and the regulatory oversight of these transactions that already exists, APCIA agrees with Interested Parties that short-term loans between affiliates should continue to be classified as short term.

Recommended Action:
NAIC staff concurs that it may be advantageous to separate the discussion of related party/affiliated vs unrelated/nonaffiliated investments. Upon review, NAIC staff agrees with the comments received from interested parties in that unrelated/nonaffiliated transactions operate in an arm’s length transaction in that the reporting entity is under no obligation to renew or roll a transaction. Upon contract maturity, a reporting entity is required to re-evaluate and re-underwrite the transaction and is able to adjust terms and conditions to conform to current market conditions. Additionally, both parties (the reporting entity and investee) independently review the terms and can terminate the transaction prior to renewal.

In terms of related/affiliated transactions, NAIC staff believe that although the operating units within a holding company are related, they can function independently and, in a manner, sufficient for short-term reporting under certain circumstances. In many cases in liquidity needs and optimization across an insurance holding company system warrant the need for short-term affiliated investments. However, at a minimum, in order for a related/affiliated transaction to remain on short-term scheduled for more than one year, the reporting entity shall maintain adequate documentation of that the short-term investment was appropriately re-underwritten to contain evidence the transaction operates in a manner similar to an unrelated/nonaffiliated investment. Additionally, NAIC staff support an identification in the Blanks for short-term investments that remain on the short-term investment schedule for more than one year.

NAIC staff recommends that the Working Group expose, with revisions from the previous exposure, as shown in gray, to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments. Changes incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments. This item is proposed to have a shortened exposure period to allow for adoption prior to the corresponding blanks proposal.

The proposed revisions will restrict the classification of certain investments as a cash equivalent or short-term investment for related party or affiliated investments that would be in scope of SSAP No. 26R—Bonds, SSAP No. 43R—Loan-backed and Structured Securities, or that would be reported as “Other Invested Assets.” These shall be reported as long-term investments under the noted criteria unless the reporting entity re-underwrites the investment, maintains appropriate re-underwriting documentation, and each participating party has the ability
to independently review the terms and can terminate the transaction prior to renewal. Further, an additional disclosure has been proposed to identify short-term investments (or substantially similar investments) which remain on the short-term schedule for more than one year (i.e. a re-underwritten investment that is renewed). A concurrent Blanks exposure is proposed to include a reporting code for renewed short-term investments as well as a new general interrogatory to certify that re-underwriting has occurred. (This code will also apply to nonaffiliated non-related party transactions for identification purposes.)

Proposed Revisions for Spring 2020 Discussion: to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments:

**Cash Equivalents**

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 287, and cash pooling, as detailed in paragraph 8. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

7. Regardless of maturity date, related party or affiliated investments that would be in scope of SSAP No. 26R—Bonds, and all investments that would be in the scope of SSAP No. 43R—Loan-backed and Structured Securities, or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply. FN, unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal:

   a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.

   b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.

   c. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments regardless of the maturity date of the reacquired investment.)

**New Footnote 1:** Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities permitted under Cash equivalents

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subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated / reacquired maturity date is within 1 year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

Short-Term Investments

12. **Short-term investments** are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition. (excluding derivatives and those investments classified as cash equivalents as defined in this statement) shall be considered short-term investments. Short-term investments can include, but are not limited to, bonds, commercial paper, repurchase agreements, and collateral and mortgage loans, which meet the noted criteria. Short-term investments shall not include certificates of deposit. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.

13. Regardless of maturity date, related party or affiliated investments in scope of SSAP No. 26R—**Bonds**, and all investments that would be in scope of SSAP No. 43R—**Loan-backed and Structured Securities**, or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply: unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

   a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.

   b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.

   c. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to SSAP No. 103R—**Transfers and Servicing of Financial Assets and Extinguishments of Liabilities**. Short-term investments subject to the provisions of paragraph 13 are not permitted to be subsequently reported as cash equivalents, even if the updated / reacquired maturity date is within 90-days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

14. All short-term investments shall be accounted for in the same manner as similar long-term investments.

15. Short-term investments meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement.
Disclosures

14. The following disclosures shall be made for short-term investments in the financial statements:

   a. Fair values in accordance with SSAP No. 100R—Fair Value;

   b. Concentrations of credit risk in accordance with SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures;

   c. Basis at which the short-term investments are stated.

   d. The items in the scope of this statement are also subject to the annual audited disclosures in SSAP No. 26R—Bonds, paragraph 30.f.

   e. Identification of short-term investments or substantially similar investments in which remain on the short-term schedule for more than one year

Proposed Revisions to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities: (No changes to prior exposure.)

28.1. 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 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:

   i. A description of the reporting entity’s objectives regarding these transactions;

   ii. An aggregation of transactions by NAIC designation 3 or below, or that do not have an NAIC designation;

   iii. The number of transactions involved during the reporting period;

   iv. The book value of securities sold;

   v. The cost of securities repurchased; and

   vi. The realized gains/losses associated with the securities involved.

Summary:

This agenda item was drafted in response to feedback received from interested parties in conjunction with agenda item 2019-41: Rolling Short-Term Investments. Feedback received indicated that cash pooling, also known as liquidity bundling or liquidity pools, could inadvertently be scoped into the short-term rolling guidance; however, it was noted by NAIC staff that cash pools are not specifically addressed in SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments and thus are not technically in scope of SSAP No. 2R. This agenda item
recommends revisions to allow specific structures that strictly hold cash, cash equivalents and short-term investments and meet certain other criteria, to be captured under SSAP No. 2R.

Interested Parties’ Comments:
Interested parties appreciate that a separate Form A (Ref #2019-42) was written related to Cash/Liquidity Pools (“pools”) to clarify the accounting associated with them. We agree with the addition of a paragraph, similar to paragraph 8, to SSAP No. 2R to provide guidance related to pools; however, given that the characteristics of pools differ by company, we propose some modifications to paragraph 8 in order to address those varied characteristics.

Interested parties’ comments related to the proposed paragraph 8 are as follows:

1) Regarding the proposal to look through the ownership structure to report the assets held as cash equivalents, we agree that look through is appropriate. Some pools, as approved by regulators, consist of assets that meet the Statutory definition of cash equivalents and thus the interest held in the pools are reported as cash equivalents on Schedule E2. However, other pools, also approved by regulators, include assets that meet the definition of short-term investments in SSAP No. 2 and thus the interest held in the pools are reported as short-term investments on Schedule DA. Some pools may include both short-term investments and cash equivalents.

Given the varied characteristic discussed above, we recommend paragraph 8 be modified to state that, if the requirements of paragraph 8 are met, the reporting entity may look through the ownership structure and report the assets as either cash equivalents or short-term assets based on the predominant characteristic of the underlying assets. This would allow companies the flexibility to report their investments in the pools in the Statutory statement schedule that is more reflective of the type of underlying investments in their pool and prevent the need for companies to reclassify/change their existing reporting to Schedule E2 from DA if they currently report the pools in DA due to the underlying assets.

2) Regarding paragraph 8d (i.e., the requirement to produce annual U.S. GAAP audited report of the pools including schedules showing each affiliate’s prorata share of the investments), insurance companies already receive an independent audit under Statutory Accounting Principles (“SAP”), which would include the insurance company’s investment in a pool. Requiring cash pools to be separately audited under U.S. GAAP would come at a cost, in time and resources, to insurers with pools. In addition, some insurers have pools which are not in the form of legal entities.

An alternative to the U.S. GAAP audit requirement of paragraph 8d. is to require a footnote disclosure at the reporting date for each insurer that participates in a pool, which identifies that the insurer is invested in a cash pool, provides the reporting entity’s share of the pool, and the insurers dollar share of cash equivalents and short-term investments in the pool. This disclosure would be subject to audit on an SAP basis of accounting. IPs believe the audit of the disclosure along with the audit of the insurance company would be adequate to meet the objectives of ensuring that the pool allocation process is accurate. Other alternatives include targeted financial examination procedures for pools, which could include procedures to confirm the balance of the pool and verify the individual legal entities’ balances for participating in the pool.

3) We note that the addition of the proposed pool language in SSAP No. 2 does not specifically address the reporting and accounting for the interests held in the pool. We recommend, if the pool is managed on a fair value basis (i.e., interest in the pool are bought and sold at fair value), that the book/adjusted carrying value for the interest held in the pool would be reported at fair value with changes in fair value reported in unrealized gains and losses. If the pool is not managed on a fair value basis, the interest held in the pool would be reported at amortized cost. It is important to note that pools managed on a fair value basis may use amortized cost as the best estimate of fair value, depending on the characteristics of the underlying assets.
Finally, in the issue paper, NAIC staff questioned whether changes to SSAP No. 48, Joint Ventures, Partnerships and Limited Liability Companies are needed, since many pools are held in a Limited Liability Company (“LLC”). Interested parties do not believe such changes are needed to SSAP No. 48; however, it would be helpful to users of the SSAPs to add a footnote to paragraph 8 of proposed SSAP No. 2R stating that pools may be held in LLCs, for example, and if so, SSAP No. 2 is to be applied and not SSAP No. 48.

**Recommended Action:**
NAIC staff recommends that the Working Group adopt the exposure, with revisions as shown below to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments as final. Changes reflect that certain cash/liquidity pools, meeting defined criteria, may be reported as cash, cash equivalents, or short-term investments. (May inquire with industry / regulators on whether exposure should be considered.)

NAIC staff appreciated the feedback from interested parties, agrees with and has integrated a majority of the suggestions. Each one will be addressed individually below:

1) Interested parties recommended that due to the varied characteristics of regulator approved liquidity pools, single line reporting be allowed to reflect the majority of the assets held. I.E. If a majority of the assets held represented cash equivalents, then the reporting entity’s share in the liquidity pool shall be reported as a cash equivalent.

NAIC staff originally proposed reporting as a cash equivalent for simplicity, however, is supportive of the suggested proposal. It is noted cash, cash equivalents, and short-term investments are aggregated together for solvency and analysis reviews. Due to this aggregation, reporting on the schedule which reflects the investments predominantly held should not cause an adverse effect for financial statement users. It’s also important to note that a disclosure remains requiring a reporting entity to disclose their share of the cash pool by asset type (cash, cash equivalents, or short-term investments). Further, Risk Based Capital (RBC) charges are identical among these three asset classes and thus differentiated reporting cannot create RBC arbitrage.

2) Interested parties requested reconsideration in terms of the originally proposed U.S. GAAP audit requirements of the cash pool. NAIC staff is supportive of removing the cash pool independent audit requirement, noting that the reported balance in the pool as well as the footnote disclosure would be subject to independent audit under Statutory Accounting Principles. An independent audit of the cash pool, while likely appreciative of the reporting entities independent auditors, would be duplicative for the reporting entities themselves.

3) Interested Parties inquired on valuation and reporting of cash pool balances and suggested variations in valuation methodologies. NAIC recommends that the Working Group require consistent valuation reporting of the assets held in accordance with existing requirements in SSAP No. 2R. For example, paragraph 13 states, “All short-term investments shall be accounted for in the same manner as similar long-term investments.” Allowing for varied reporting dependent on the manner in which the cash pool is managed would allow for identical investments to be reported in differing manners. NAIC staff believes the accounting for these investments should reflect the accounting which would have taken place had the assets been held directly, and not held in a liquidity pool. As such, NAIC staff has added guidance stating that assets held in the pool shall be valued consistently with the valuations required by asset type as currently stipulated in SSAP No. 2R.
NAIC staff propose the following updates to the exposed guidance. (Updates are highlighted below in grey).

Proposed Revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less qualify under this definition, with the exception of cash pools that meet the requirements of paragraph 8 and money market mutual funds described in paragraph 7. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

7. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting. Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in SSAP No. 103R.

8. Cash pooling is a technique, utilized by some companies under common control by which several entities’ cash accounts are aggregated for numerous purposes, including liquidity management, optimizing interest or investment returns and reducing investment or banking transaction fees. Cash pools can have numerous functions and structures, however only those that have obtained domiciliary regulator approval and meet the requirements may look through the ownership structure to report the assets held as cash, cash equivalents, or short-term investments:

a. Members or participants in the pool are limited to affiliated entities as defined in SSAP No. 25.

b. Investments held by the pool are limited to non-affiliated investments.

c. The pool must permit each participant to withdraw, at any time, cash up to the amount it has contributed to the pool. Each participant must own an undivided interest in the underlying assets of the pool in proportion to the aggregate amount of cash contributed. All affiliates’ interests in the pool shall be of the same class, with equal rights, preferences and privileges. All membership interests shall be fully paid and non-assessable and shall have no preemptive, conversion or exchange rights. The liability of a participant’s debts and obligations of the pool shall be limited to the amount of its contributions and no participant shall be obligated to contribute money to the pool for any reason other than to participate in the pool’s investments. Additionally, participants shall not cover the debits or credits of another participant (commonly referred to as notional cash pooling).

d. A reporting entity shall receive an annual report from the pool manager, which identifies the participant’s investment (share) in the cash pool and the dollar value of its share of cash, cash equivalents and short-term investments. The reporting entity shall report their total balances in the cash pool on the schedule which represents a majority of the held assets (For example, a qualifying cash pool that contains 20% cash, 70% cash equivalents, and 10% short-term investments, the reporting entity would report their entire balance invested
as a cash equivalent. An audited U.S. GAAP annual report of the cash pool and schedules showing each affiliate’s prorated share of investments shall be provided annually to each participant as of December 31. The reporting entity shall independently determine if the investments would have qualified as cash, cash equivalents or short-term investments had the entity independently acquired the investments. To the extent the pool holds investments that do not meet the definition of cash, cash equivalents, short-term investments, or if the cash pool is not supported by an audited statement, the pool does not qualify within scope of this statement.

e-e Valuation of the assets in the pool shall remain consistent with the valuations required by reported asset type as stipulated in SSAP No. 2R.

Disclosures

15. The following disclosures shall be made for short-term investments in the financial statements:

a. Fair values in accordance with SSAP No. 100R—Fair Value;

b. Concentrations of credit risk in accordance with SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures;

c. Basis at which the short-term investments are stated.

d. The items in the scope of this statement are also subject to the annual audited disclosures in SSAP No. 26R—Bonds, paragraph 30.f.

16. The financial statements shall disclose the reporting entity’s share of the cash pool by asset type (cash, cash equivalents, or short-term investments).

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Summary:

During the 2019 Fall National Meeting, the Working Group exposed revisions to SSAP No. 71—Policy Acquisition Costs and Commissions to provide clarifications to the long standing levelized commissions guidance and provide additional guidance regarding commission that is based on policy persistency. The revisions clarify that a levelized commission arrangement (whether linked to traditional or nontraditional elements) requires the establishment of a liability for unpaid principal and accrued interest payable, regardless of the timing of payments made to a third party. Additionally, persistency commission shall be accrued proportionately over the policy period in which the commission relates to and is not deferred until fully earned.

The exposed recommendations are intended to be consistent with the original intent of SSAP No. 71 as well as the Statutory Statement of Concepts focusing on Recognition (noted in the Preamble, paragraphs 37 and 38) stating that liabilities require recognition as they are incurred and accounting treatments which tend to defer expense recognition do not generally represent acceptable SAP treatment.

Notice of the exposure were also sent to the Life Actuarial (A) Task Force. The Working Group forwarded comments received at the Fall National Meeting inquiring whether there is specific Valuation Manual language in VM-20, Requirements for Principle-Based Reserves for Life Products, and VM 21, Requirements for Principle-Based Reserves for Variable Annuities, that needs to be addressed in the coordination process as part of this agenda.
item. NAIC Staff understanding is that the PBR methodology takes commission into account when projecting the present value of future cash flows. However, the projected future cash flows would not be separately accrued again, if there is an existing liability.

**Interested Parties’ Comments:**
Interested parties appreciate staff’s availability to discuss the proposed revisions. Based on that discussion and the discussion at the Fall Meeting, interested parties propose suggested edits that we believe achieve the goal of a nonsubstantive change and clarify the original intent of SSAP 71. (Note: the *NAIC Accounting Practices and Procedures Manual-Life* which was in force prior to the effective date of current SAP includes the same wording as current SSAP No. 71). The suggested edits add a clear definition of a funding agreement. This will clarify the distinction between funding agreements and persistency-based commissions, without unintentionally changing the existing accounting. We welcome the opportunity to discuss the suggested edits further with the Working Group.

Interested parties’ revisions shown as shaded and tracked text to the exposed language.

3. Contingent commission liabilities shall be determined in accordance with the terms of each individual commission agreement. Commission liabilities determined on the basis of a formula that relates to loss experience shall be established for the earned portion. Assumptions used to calculate the contingent commission liability shall be consistent with the terms of the policy contract and with the assumptions made in recording other assets and liabilities necessary to reflect underwriting results of the reporting entity such as retrospective premium adjustments and loss reserves, including incurred but not reported. Commission contracts that include persistency (or other such components) shall not use these clauses to defer recognition of commission expense. If a commission is based on annual policy persistency (or other similar components), the commission shall be accrued based on experience to date for the policy period that the commission relates. In regard to persistency commission, it is inappropriate to wait until the amount is fully earned and/or unavoidable to accrue experience to date commission expenses. Actual policy cancellation would reverse the accrual of the related persistency commission.

4. Levelized commissions occur in situations where agents receive normal (non-level) commissions with payments made by a third party. It is intended, but not necessarily guaranteed, that the amounts paid to the agents by the third party would ultimately be repaid (with interest explicit or implied) to the third party by levelized payments (which are less than the normal first year commissions but exceed the normal renewal commissions) from the reporting entity. (Note: levelized repayments made by the reporting entity extend the repayment period but might not be a straight-line repayment.) These transactions are, in fact, funding agreements between a reporting entity and a third party, regardless of how the payment to the third party is characterized. A funding agreement is an agreement whereby a third party provides a lump sum of money in return for a guaranteed stream of payments over a predetermined time period enabling the third party to earn investment spread. The payment stream is fixed without regard to the traditional elements of continued premium payments or policy persistency. The continuance of the stream of payments specified in the levelized commission contract is a mechanism to bypass recognition of those expenses which are ordinarily charged to expense in the first year of the contract. Consequently, the normal link between the persistency of the policy, the continuance of the premium payment or the maintenance of the agent's license with the reporting entity is not maintained with respect to the payment stream.

5. The use of an arrangement such as a levelized commission arrangement where commission payments are not linked to traditional elements such as premium payments and policy persistency, but rather are linked to the repayment of an advance amount paid by a third party to the agents requires the establishment of a liability by the reporting entity for the full amount of the unpaid principal and accrued interest which is payable to a third party related to levelized commissions.

New Footnote — The guidance in this paragraph notes that levelized commissions which use a third party to pay agents that are linked to traditional elements require establishment of a liability for the amounts that have been paid to the agents and any interest accumulated to date.
Acadia/Capital Solutions’ Comments:
We have reviewed the proposed changes to SSAP No. 71 – Policy Acquisition Costs and Commissions as outlined in Ref. #2019-24 as revised on December 7, 2019.

The most effective way to appreciate the unintended consequences of the proposal is to start with a basic understanding of a typical distribution structure. Reporting entities execute distribution agreements, including compensation structure, with distribution partners (IMO, BGA, TPM, MGA, BD, for example). These distribution partners recruit, contract, train, supervise, and compensate smaller organizations (agencies, selling groups, brokerages, etc.) and individual producers (agents, brokers, etc.).

SSAP No. 71 prescribes statutory accounting treatment for reporting entity compensation agreements entered for the sale, distribution, and servicing of policies. The revisions proposed in Exposure Draft 2019-24 (as revised December 7, 2019) focus on two areas: (1) levelized commissions or “trail” payments paid directly to distribution partners or individual producers by a reporting entity and (2) levelized commissions or other installment payments paid to “third parties” by the reporting entity solely in exchange for the third party making non-levelized payments to the distribution partners or individual producers in place of the reporting entity (sometimes called “funding agreements”).

The proposed Exposure Draft relating to the first are in Paragraph 2 and call for “…commission shall be accrued based on experience to date for the policy period that the commission relates.” This specifically relates to the required timing or obligating event of a reporting entity’s liability for the cost of a commission payment specifically linked to persistency or policy renewal upon the anniversary of a policy issue date or some other future date or event.

The proposed Exposure Draft revisions relating to the second are (a) in paragraph 4, “…regardless of how the payment to the third party is characterized.”, (b) in paragraph 5, “…paid by a third party to the agents…” by the reporting entity.”, and (c) in a footnote to paragraph 5, “The guidance in this paragraph notes that levelized commissions which use a third party to pay agents that are linked to traditional elements require establishment of a liability for the amounts that have been paid to the agents and any interest accumulated to date.”

The proposed revisions have different implications for different constituencies. We have endeavored to capture the essence of the concern from each party below. The proposed revisions have substantive implications for each of the noted constituencies, contrary to the non-substantive assertion in the revised exposure draft 2019-24. As a direct result of the inequity of the proposed changes upon various constituencies and the potential for substantial financial and economic harm incurred by the adoption of these changes to a variety of constituencies, we strongly recommend and request that the proposal not go forward.

Reporting Entity/ Carrier perspective:

1. Levelized commission programs are economic equivalents to “normal (non-level) commissions.” Levelized commission programs are preferable as they create a virtuous cycle linking the interests of consumers, agents, distribution partners and carriers to maintain ongoing servicing relationships, improving consumer support and policy persistency. Distribution relationships are multi-faceted, including agent recruitment and oversight, sales, sales support, underwriting support, premium collection, policy delivery and agent payment. Characterizing distribution partners as a ‘third party’ under the proposed footnote to paragraph 5 of SSAP No. 71 discounts the complexity of these relationships and the value of these vital roles dramatically altering carrier dynamics with distribution partners.

2. Reporting entities or carriers will be unduly penalized for economic transactions negotiated under existing accounting principles as a direct result of this proposal. The value of those transactions is retroactively altered by the introduction of a modified accounting principle which neither party initially anticipated, negotiated or priced.
3. Higher required capital and lower returns resulting from an arbitrary modification to an existing accounting practice will drive product design reviews and likely product redesigns modifying or eliminating levelized commission options or reducing value to the consumer through higher premiums and/or lower benefits.

4. The proposal to require reserves for future persistency based levelized commissions creates a disconnect with GAAP accounting where there is no reserve requirement. Moreover, the proposal creates new uncertainty around which other, long standing accounting treatment will be changed next.

Distributor/Agent perspective

1. The trial compensation approach incentivizes all parties to maintain a long-term relationship based upon ongoing agent support of consumer needs. Reducing or removing recurring compensation in the form of persistency based levelized commissions, shifts distributor economic motivation to new product sales, further degrading product level returns for the carrier. Reducing benefit levels or increasing premiums for the same benefit levels will lower the value proposition for effected products very likely reducing sales and consumer protection delivered by the products.

Consumer perspective:

1. The fallout from the changes will diminish value of insurance products through higher premiums and/or lower benefits enacted by carriers seeking to make up lost economic value and from lower service levels provided by brokers or agents as their incentives shift from ongoing consumer service relating to in-force policies to selling new policies (whether to the individual policyholder or other prospective clients).

Greenberg Traurig’s Comments: on behalf of DRB Insurance Solutions

Thank you for the opportunity to provide comments on Proposal 2019-24 from the Statutory Accounting Principles Working Group regarding Policy Acquisition Costs and Commissions. The Working Group voted to re-expose revisions to SSAP 71 – Policy Acquisition Costs and Commissions - for comment at the NAIC Fall Meeting on December 7, 2019, continued to categorize the revisions as non-substantive, and further clarified levelized commission guidance and direction regarding certain commission obligations. I offer comments on behalf of our client, DRB Insurance Solutions, LLC, a licensed insurance producer (“DRB”).

SSAP No. 71 provides that levelized commissions occur in situations in which a third party, such as a funding agent, pays agents non-levelized commissions and the reporting entity pays the third party by levelized payments. The Working Group notes that it is intended, but not necessarily guaranteed, that the amounts paid to the agents by the third-party would ultimately be repaid to the third-party from the reporting entity. SSAP No. 71 identifies such arrangements as “funding agreements” between the reporting entity and the third-party. SSAP No. 71 further provides that the use of a commission arrangement where commission payments are not linked to traditional elements (such as premium payments and policy persistency) requires the establishment of a liability for the full amount of the unpaid principal and accrued interest which is payable to a third-party related to levelized commissions.

While revisions were made to several paragraphs and footnote 1 in the initial proposal at the Working Group’s meeting in December, the current exposure language remains overly broad to address the issue identified and intended to be clarified by the Working Group. Regulators have identified levelized commissions as funding arrangements to bypass recognition of acquisition costs by insurers and believe recognizing the full acquisition expense at the time of policy issuance is appropriate accounting treatment pursuant to SSAP No. 5R and the Statement of Concepts focusing on Recognition. Notably, the Working Group intended to restrict intercompany and affiliated transfers of trailing commission structures as pure accounting transactions solely for the purpose of deferring expense recognition of commission obligations, which is a laudable goal.

However, the language exposed to classify trailing commission transactions as funding arrangements is so broad, it encompasses practically every broker contract with an insurer that allows for any alternative payment arrangement between the broker and the issuing agent. DRB Insurance Solutions is an independent third-party master producer.
which uses various contracts between DRBIS and its sub-agents for commission payment, including trailing, heaped, partially heaped and trailing commissions, etc. The agreements between DRBIS and reporting entities are arms-length transactions, include the transfer of lapse risk, mortality risk and the commission expense obligation. The proposal requiring all insurers to accrue the full commission expense under these circumstances is illogical when the insurer no longer has the legal obligation to pay the expense and therefore, no longer has legally incurred the expense.

While regulators have opined that affiliated transactions shrouded as commission arrangements appear to circumvent accrual of commission expense at policy issuance, the goal to affect those transactions may continue to be addressed while narrowing the language to clarify that non-affiliated third-party contracts are not included. Accordingly, DRBIS offers the following amendment to the exposure draft to narrow the applicability to those affiliated transactions. Suggested language for Paragraph 4 and the footnote to Paragraph 5 is shown as shaded text as follows:

4. Levelized commissions occur in situations where agents receive normal (non-level) commissions with payments made by a third party under the control of the reporting entity, its parent, and/or any subsidiary or affiliate of the reporting entity or its parent. It is intended, but not necessarily guaranteed, that the amounts paid to the agents by the third party would ultimately be repaid (with interest explicit or implied) to the third party by levelized payments (which are less than the normal first year commissions but exceed the normal renewal commissions) from the reporting entity. (Note: levelized repayments made by the reporting entity extend the repayment period but might not be a straight-line repayment.) These transactions are, in fact, funding agreements between a reporting entity and a third party, regardless of how the payment to the third party is characterized. The continuance of the stream of payments specified in the levelized commission contract is a mechanism to bypass recognition of those expenses which are ordinarily charged to expense in the first year of the contract. Consequently, the normal link between the persistency of the policy, the continuance of the premium payment or the maintenance of the agent's license with the reporting entity is not maintained with respect to the payment stream.

5. The use of an arrangement such as a levelized commission arrangement where commission payments are not linked to traditional elements such as premium payments and policy persistency, but rather are linked to the repayment of an advance amount paid by a third party under the control of the reporting entity, its parent, and/or any subsidiary or affiliate of the reporting entity or its parent to the agents requires the establishment of a liability by the reporting entity for the full amount of the unpaid principal and accrued interest which is payable to a third party under the control of the reporting entity, its parent, and/or any subsidiary or affiliate of the reporting entity or its parent related to levelized commissions. New Footnote – The guidance in this paragraph notes that that levelized commissions which use a third party to pay agents does not imply that levelized commissions that are linked to traditional elements do not require establishment of a liability for the amounts that have been paid to the agents and any interest accumulated to date. Rather, such levelized commission obligations should be accrued for as set forth in paragraph 3.

The proposed language requires recognition of commission expense in situations where affiliated companies trade lapse and mortality risk amongst and between affiliated reporting entities using a commonly owned master producer while excepting unaffiliated third-party transactions from similar treatment. In these unaffiliated contractual arrangements, where risk and liability is transferred, the reporting entity may not even be aware of the payment schedule between the master producer and its sub-agents and certainly should not be required to accrue the full amount of the commission expense at policy issuance when the insurer is no longer legally required to pay that expense.

Non-Substantive Change

Finally, DRBIS would like to restate its opposition to consideration of the exposure draft as a non-substantive change. As previously stated, levelized commission programs began over thirty years ago, before the 1998
publication of Statutory Issue Paper No. 71 and the January 1, 2001 codification of Statutory Accounting Principles. The primary objectives of a levelized commission structure include aligning the interests of the customer, the agent, and the company and improved persistency from providing ongoing customer service. There is a duty to act in the best interests of the policyholder, as well as a compensation incentive, to make sure policies are well serviced so they stay in-force.

The proposed revisions to SSAP No. 71 are designated as non-substantive and deemed to be a clarification of intent of the codified statutory guidance. However, levelized commission programs were implemented more than a decade before the codification in 2001. Therefore, this is a material change to historical accounting practices and not a clarification of original intent. Even after codification, levelized commission programs continued for years and were not identified as applying statutory accounting incorrectly.

In conclusion, the current exposure draft of SSAP 71 is clearly not “non-substantive” and would have substantial unintended consequences without the amendments proposed above. Additionally, the expansive effect of this policy decision should be subject to open deliberation and public comment as the Working Group considers adoption. Thank you for the opportunity to comment.

**Recommended Action:**
NAIC Staff recommends that the Working Group adopt the revisions as exposed from the 2019 Fall National Meeting or provide additional direction to NAIC Staff. As summarized below, the proposed language from Interested Parties and DRB Insurance Solutions are not viable as both proposals are inconsistent with existing principles. The exposed language would not allow the use of a third-party agent agreement to delay recognition of liability and expense from an in-force insurance contract. If the Working Group wants to consider changes to allow third-party agents agreements to delay the recognition of liability and expense by the insurance reporting entity, then this would be considered a substantive change from existing statutory accounting principles. While parties agree that the related amounts are ultimately liabilities/expenses, the issue is when to record the liability/expense. NAIC Staff believe a liability and expense is incurred when the contract is written, not when the payment is due. In addition, NAIC Staff has concern with the comments regarding assumption of insurance risk by brokers and other third parties.

**Overview of Interested Parties’ proposed revisions**
Interested Parties proposed language recommends deleting most of the exposed revisions and adding guidance that would redefine a funding arrangement to only include those items where repayment is guaranteed. This proposal would conflict with the long-standing guidance in SSAP No. 71, paragraph 4 which notes that “It is intended, but not necessarily guaranteed, that the amounts paid to the agents by the third party would ultimately be repaid…” The existing language seeks to look at the big picture substance of the transactional arrangement noting, that in essence, a third party would not prepay an entity’s commission expenses without an expectation of repayment. As the proposed language would conflict with the existing principle, NAIC staff does not view this as a viable proposal.

**Overview of Acadia/Capital Solutions’**
The comments from Acadia Capital Solutions focus on what they describe as unintended consequences and potential impacts to various entities. It asserts that clarifying existing language is a substantive change. However, NAIC staff notes that the proposed revisions are trying to emphasize existing language that has been in effect since prior to codification is being ignored by some reporting entities in an attempt to defer expense recognition. Expensing acquisition costs when incurred is a long-standing principle in statutory accounting.

**Overview of GreenbergTraurig on behalf of DRB Insurance Solutions**
DRB’s proposed language recommends only requiring levelized commission liability recognition if the third party, which prepays the commission, is a under the control or has common control with the insurance reporting entity. Presumably that means if an unrelated party fronts the commission expense, no liability recognition is required by
the insurance reporting entity. As the substance of the transaction is the same for related and unrelated parties, NAIC staff does not view this as a viable proposal.

NAIC also notes that the comment letter asserts that the third-party broker, by virtue of their agreement, has assumed “lapse risk, mortality risk and the commission expense obligation.” It also asserts that “requiring all insurers to accrue the full commission expense under these circumstances is illogical when the insurer no longer has the legal obligation to pay the expense and therefore, no longer has legally incurred the expense.” NAIC staff notes that some of the identified items that are noted as being transferred to the broker are insurance risks that should only be transferable to an insurance entity through a reinsurance agreement. NAIC staff also notes that the substance of the arrangement is still profit based. The company that fronts the commission expense of behalf of the insurance reporting entity has the expectation of repayment until the policy is cancelled.

**SSAP No. 71 With Revisions Exposed at the Fall National Meeting for Potential Adoption Consideration:**

**SUMMARY CONCLUSION**

2. Acquisition costs are those costs that are incurred in the acquisition of new and renewal insurance contracts and include those costs that vary with and are primarily related to the acquisition of insurance contracts (e.g., agent and broker commissions, certain underwriting and policy issue costs, and medical and inspection fees). Acquisition costs and commissions shall be expensed as incurred. Determination of when acquisition costs and commissions have been incurred shall be made in accordance with SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets.

3. Contingent commission liabilities shall be determined in accordance with the terms of each individual commission agreement. Commission liabilities determined on the basis of a formula that relates to loss experience shall be established for the earned portion. Assumptions used to calculate the contingent commission liability shall be consistent with the terms of the policy contract and with the assumptions made in recording other assets and liabilities necessary to reflect underwriting results of the reporting entity such as retrospective premium adjustments and loss reserves, including incurred but not reported. Commission contracts that include persistency (or other such components) shall not use these clauses to defer recognition of commission expense. If a commission is based on annual policy persistency (or other similar components), the commission shall be accrued based on experience to date for the policy period that the commission relates. In regard to persistency commission, it is inappropriate to wait until the amount is fully earned and/or unavoidable to accrue experience to date commission expenses. Actual policy cancellation would reverse the accrual of the related persistency commission.

4. Levelized commissions occur in situations where agents receive normal (non-level) commissions with payments made by a third party. It is intended, but not necessarily guaranteed, that the amounts paid to the agents by the third party would ultimately be repaid (with interest explicit or implied) to the third party by levelized payments (which are less than the normal first year commissions but exceed the normal renewal commissions) from the reporting entity. (Note: levelized repayments made by the reporting entity extend the repayment period but might not be a straight-line repayment.) These transactions are, in fact, funding agreements between a reporting entity and a third party, regardless of how the payment to the third party is characterized. The continuance of the stream of payments specified in the levelized commission contract is a mechanism to bypass recognition of those expenses which are ordinarily charged to expense in the first year of the contract. Consequently, the normal link between the persistency of the policy, the continuance of the premium payment or the maintenance of the agent's license with the reporting entity is not maintained with respect to the payment stream.

5. The use of an arrangement such as a levelized commission arrangement where commission payments are not linked to traditional elements such as premium payments and policy persistency, but rather are linked to the repayment of an advance amount paid by a third party to the agents requires the establishment of a liability by the reporting entity for the full amount of the unpaid principal and accrued interest which is payable to a third party related to levelized commissions. [3]
New Footnote – The guidance in this paragraph notes that levelized commissions which use a third party to pay agents that are linked to traditional elements require establishment of a liability for the amounts that have been paid to the agents and any interest accumulated to date.

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Summary:
During the 2019 Fall National Meeting, the Working Group exposed substantive revisions to No. 105—Working Capital Finance Investments, using 6 of the 10 industry-proposed concepts.

Summary of revisions detailed in the SSAP:

1. **Functionally Equivalent Foreign Regulators** - Removed the requirement that the SVO determine if the International Finance Agent is the functional equivalent of the U.S. Regulator. (paragraph 10.a)

2. **Commingling Prohibitions** - Removed the finance agent prohibitions on commingling. (paragraph 10.b)

3. **Investor Rights Edit** - Removed duplicative text regarding exercise of investor rights. (paragraph 11.b)

4. **Requirements for filer to Certify Perfected Interest** – Removed requirements, with revisions allowing the SVO to determine if a first priority perfected interest has been obtained. (paragraphs 14 & 15)

5. **Finance Agent Validation Requirements** – The independent review requirements were broadened to allow independent review of the finance agent by either audit or through an internal control report. (paragraph 16)

6. **Default Date** - Changed the default provisions from 15 to 30 days so the default date and the cure period are consistent. This has the effect of changing the date of nonadmission for an investment in default for a period up to 30 days instead of up to 15 days. (paragraph 28)

Interested Parties’ Comments:
In 2016, the American Council of Life Insurers (ACLI) advised the NAIC that the implementation of SSAP No. 105 was not successful and that adoption had been low. ACLI began a dialogue with staff and regulators about both the shortcomings of the 2013 adopted rules and outlined required changes to make the rules suitable. As part of that process, ACLI marked up both the SSAP and NAIC SVO Purposes and Procedures Manual (P&P Manual) with the suggested changes which have subsequently been characterized as "10 required items", which staff have in turn opined on, and noted that four of the items are not supported by staff. Absent all 10 required items, WCFI adoption will remain low. Staff have noted an immaterial number of programs have been filed with only a subset of those approved, resulting in limited investments made. The existing Exposure provided to staff and regulators by ACLI and was utilized by staff to produce the current proposal, without addressing the proposed language by ACLI on the four required items not supported by staff.

Objections to the four required changes are:

1) evaluating non-rated subsidiaries of obligors (even though the existing SSAP already provides guidance to do).

2) expanding covered investment credit quality to include NAIC 3 and 4 investments,
3) requiring domiciliary regulator authorization for investment, and

4) requiring reporting on Schedule BA even though the asset class qualifies for look through RBC treatment.

In the ACLI draft provided to the NAIC, ACLI proposed an evaluation mechanism that is suitable for NAIC implementation on un-rated subsidiaries. With regard to NAIC objection on lower rated investments, such position is inexplicable as statutory RBC requirements reflect investment quality decisions in capital calculations limiting industry investments to compliant assets. Domiciliary regulator prior approval for investment is a transfer of transaction review from staff to state insurance departments when, if regulators are concerned about the asset class, they can uniformly limit investment as a whole. Finally, Schedule BA reporting is both cumbersome and expensive for industry further exacerbating adoption without useful purpose. Regulators can track any specific asset class or investment by requiring the use of a specific investment code on the appropriate accounting schedule, which in the case of WCFI is Schedule DA).

Interested parties note that private placements, as opposed to public investments, are typically available only to large industry participants and that the economic impact of a $10,000 industry filing fee per issue per filing entity has an operating impact on a $1,000,000 investment in WCFI, which for the avoidance of doubt would be sizable for most industry investors, of 1% of the investment income in year 1 of that investment. Current investment yields for NAIC 1 and 2 investments in WCFI offer gross returns of 2 – 2.5%. Such a high cost to a small industry investor, coupled with the fact that dealers would unlikely choose to document such investments bilaterally with small industry investors, limits access to the assets to large industry investors. In summary, interested parties request that regulators reconsider ACLI markup with the additional four requirements as originally submitted by ACLI and ultimately, after appropriate exposure and review, to direct staff to implement these changes.

**Recommended Action:**

**NAIC staff recommends that the Working Group:**

1. Adopt the exposed revisions to SSAP No. 105 with an effective date to be specified by the Working Group. It is perceived that industry would like this to be effective as soon as possible. It could have an immediate effective date (e.g., March 31, 2020). If desired, a later date can be considered.


Interested parties continue to advocate for inclusion of the four items that the Working Group opted to exclude from the additional revisions to the revised Statement.

1. Possible Domestic Regulator Approval – The statement that the reporting entity may need to seek approval from the domestic regulator was maintained.

2. Only High-Quality Obligors – The current requirement which restricts designations of programs and obligors to being of high quality (NAIC 1 or NAIC 2) was maintained.

3. Unrated subsidiaries / Credit substitution – The industry proposed credit substitution methodology for unrated subsidiaries was not incorporated in the exposed revisions. The industry proposal is very different than the existing SVO credit substitution methodology. The industry proposal had two aspects:

   i. Credit substitution for unrated subsidiary obligors of a rated obligor – Industry proposed to attribute the credit strength of the rated parent to the unrated subsidiary obligor without the rated parent being a guarantor of the unrated subsidiary’s WCFI obligations. This aspect envisions the rated entity having some of its own obligations in the program.
ii. Credit Substitution of rated obligor for its unrated subsidiaries which are key transaction participants, but not obligors. The industry proposal was to create criteria to allow the “program” to obtain an acceptable NAIC designation by evaluating if the unrated “key transaction participant” is able to perform its functions. Industry proposed several different ways to attribute the rated entity’s credit rating to the unrated entity including:

(a) Documented operational control of unrated obligor, or  
(b) An important inter-relationship with unrated obligor, or  
(c) If the unrated key transaction participants are reasonably expected to perform their functions.

4. Change Reporting Schedule – The Working Group did not change the reporting requirements to move the WCFI investments from Schedule BA – Other Assets, to Schedule DA – Short term Investments as Schedule DA does not provide for designations, which are needed for RBC.

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Summary:
This agenda item has been drafted to data-capture disclosures from SSAP No. 25—Affiliates and Other Related Parties. Currently, all disclosures from SSAP No. 25 are completed in a narrative (pdf) format. With the proposal to data-capture disclosures, the regulators can aggregate and query related party relationships.

This item is separate from an agenda item (Ref #2019-34) that is considering revisions to SSAP No. 25 to clarify the identification of related parties and consider enhanced disclosures for when there is a disclaimer of control approved by a domiciliary state and when a company outside of the holding company group owns more than 10% of the insurance reporting entity. This agenda item will follow a separate work stream to allow for year-end 2020 data capturing. If the revisions being considered under the separate agenda item are adopted by June 2020 (Blanks deadline), then those disclosures may modify or expand the data templates proposed in this agenda item.

Interested Parties’ Comments:
Interested parties believe that clarifications to paragraph 20 of SSAP No. 25 are necessary. We believe that the aggregation of similar transactions may result in immaterial transactions becoming material, meeting the threshold of 1/2 of 1% of the total admitted assets of the reporting entity. Therefore, we propose the edits highlighted below to ensure that aggregation occurs subsequent to the application of the criteria in paragraph 20.b. for materially identified transactions.

**Proposed Edits to the exposure**

Disclosures

20. The financial statements shall include disclosures of all material related-party transactions. In some cases, aggregation of similar transactions, that on a stand-alone basis are not material, may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient. If necessary to the understanding of the relationship, the name of the related party should be disclosed. Transactions shall not be purported to be arm’s-length transactions unless there is demonstrable evidence to support such statement. The disclosures shall include:
a. The nature of the relationships involved;

b. A description of the transactions for each of the periods for which financial statements are presented, and such other information considered necessary to obtain an understanding of the effects of the transactions on the financial statements. Exclude reinsurance transactions, any non-insurance transactions which involve less than ½ of 1% of the total admitted assets of the reporting entity, and cost allocation transactions. The following information shall be provided if applicable:

**Recommended Action:**
NAIC staff recommends that the Working Group adopt the exposed data capture templates for SSAP No. 25—Affiliated and Other Related Parties, with the minor interested party edit as final. A Blanks proposal will be considered for 2020 annual reporting.

With inclusion of these data templates, narrative (pdf) reporting shall still occur to provide additional information regarding related party transactions. These newly created templates data capture information currently provided in narrative form and aside from the edit proposed by interested parties, did not result in a change to SSAP No. 25.

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**Summary:**
The intent of this agenda item is to clarify identification of related parties and affiliates in SSAP No. 25—Affiliated and Other Related Parties and to incorporate new disclosures to ensure regulators have the full picture of complicated business structures.

The proposed SSAP revisions intend to address the following key aspects:

- Clarify the identification of related parties and ensure that any related party identified under U.S. GAAP or SEC reporting requirements would be considered a related party under statutory accounting principles.

- Clarify that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation.

- Clarify the impact of a disclaimer of control or disclaimer of affiliate under SAP. As detailed, such disclaimers impact holding company group allocation and reporting as an SCA under SSAP No. 97, but do not eliminate the classification as a “related party” and the disclosure of material transactions as required under SSAP No. 25.

- Proposes rejection of several U.S. GAAP standards addressing variable interest entities.

**Interested Parties’ Comments:**
Interested parties understand and agree with the need for transparency in disclosures of related party transactions. However, we have significant concerns with the proposal as it is not very clear based on the proposed changes to SSAP No. 25 what it is that will be required going forward based on the expansion of the definition of a related party. We include some of our observations below.
Interested parties would like clarity around the new proposed wording that states that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation. One of our concerns in this area relates to limited partnership/joint ventures/limited liability company (LPs/JVs/LLCs) investments where the insurer owns more than 10% of the equity of the investee but has no affiliation to the investee’s general partner/asset manager. SSAP No. 97 currently includes a possible scope exception in paragraph 6 for these types of investments so that they are not considered affiliated or controlled investees of the insurer. It is not clear from the proposal what the expected impact is from now having to consider all investments in unaffiliated LPs/JVs/LLCs where the insurer owns more than 10% of the equity but has no other affiliation, as related parties. If the intent is just to have insurers disclose material transactions with these entities other than the equity investment held in each entity, we believe that this needs to be more clearly stated in the proposal so that there is no misrepresentation of what needs to be disclosed or whether these investments need to be reported in a different section of Schedule BA (i.e., affiliated vs. non-affiliated).

Another, but similar concern relates to certain entities consolidated under U.S. GAAP based on the Variable Interest Entity (VIEs) guidance. For some of these consolidated VIEs, the insurer has no control or affiliation with the entity other than its debt investment in the entity. The insurer is simply a passive investor in the structure. However, under the VIE rules, the insurer must consolidate the entity as the insurer may be able to make decisions for the VIE if there is ever an event of default of the assets at some point in the future. These rights are given to certain classes of bonds issued by the securitization as a protection to the investors, but do not give the investors any type of power or control over the VIE at inception or on a day-to-day basis. It is important to note that consolidation rules under FASB Codification Topic 810 are very complex with some insurers concluding consolidation is required under a set of fact and circumstances and others concluding consolidation is not required under the same set of facts and circumstances. In the example just shared, some insurers have concluded consolidation is required because when no day-to-day decisions are being made for the VIE, decisions upon the occurrence of a certain event which may be unlikely to occur, rise to the point where they are the decisions that have the most significant impact on the economic results of the VIE. We believe that even though insurers have to consolidate these entities, there is no true related party affiliation. The proposal requires that any entity identified as a related party under U.S. GAAP will also be considered a related party for statutory reporting. Since these entities are consolidated for GAAP, the presumption would be that they are a related party of the insurer. If these entities will be considered related parties on a statutory basis going forward, the exposure needs to clarify that the inclusion of these types of entities only impacts related party disclosures for any material transactions held with these entities other than the debt investment held by the insurer in the VIE and that the debt instrument is still reported on Schedule D as unaffiliated.

Interested parties also have concerns with SSAP No. 25 including references to U.S. GAAP and SEC reporting for mutual insurers that do not prepare U.S. GAAP financial statements and do not file with the SEC. Therefore, interested parties recommend that the specific guidance from the GAAP and SEC be stated in SSAP No. 25 (rather than incorporated by reference) so that any future changes in GAAP and SEC guidance are subject to NAIC review prior to being applicable. Also, it is important to note that even when an entity is considered a related party under U.S. GAAP, disclosure of that relationship is only required when there are material transactions with that party. U.S. GAAP allows reporting entities to evaluate the significance of a relationship and determine when disclosure of that relationship is material/significant enough for disclosure to a user of the financial statements. As a result, we suggest this be clarified in the exposure as well so that it is clear that the reference to related parties under GAAP and SEC rules is only relevant if the insurer has material transactions with such parties outside of the insurer’s investment in the entity.

Response from the Group Solvency Issues (E) Working Group to the Working Group’s referral at the 2019 Fall National Meeting:
The Group Solvency Issues (E) Working Group has recently noted several challenges in identifying and tracking the various affiliated/related parties within insurance groups, as well as the relationships an insurance group may have with other insurance groups. At the same time, regulators have noted an increased number of situations where the solvency and liquidity of insurers were negatively impacted by affiliated investments and relationships. Given
the above-mentioned issues and concerns, the Working Group would like to express its support for the changes to SSAP No. 25—Affiliates and Other Related Parties that are proposed in agenda item 2019-34.

The Working Group agrees that each of the clarifications provided within the proposed revisions are valuable and will assist insurers and regulators in understanding the proper accounting treatment and disclosure requirements in this area. However, the Working Group notes that there may be additional disclosures necessary to clearly understand the nature of relationships across insurance groups. For example, Working Group members have found it difficult to understand and track relationships between insurers that are not affiliated (i.e., not under common control) but that share some level of common ownership. The Working Group recommends consideration of a new statutory disclosure that would provide information on minority ownership interests, as well as significant relationships between minority owners and other U.S. domestic insurers/groups.

**Recommended Action:**
NAIC staff recommend that the Working Group direct NAIC staff to work with interested parties to update the proposed revisions to SSAP No. 25. Interested parties’ comments include several main points which are listed out below, along with NAIC staff comments.

1. Interested parties would like clarity around the new proposed wording that states that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation.

   *NAIC staff believe that we will need to work with interested parties to clarify this section. The Group Solvency Issues (E) Working Group requests information on the non-controlling interests greater than 10%.*

2. Another, but similar concern relates to certain entities consolidated under U.S. GAAP based on the Variable Interest Entity (VIEs) guidance.

   *NAIC staff believe that if an entity must be consolidated under U.S. GAAP, that it is a related party.*

3. Interested parties have concerns with SSAP No. 25 including references to U.S. GAAP and SEC reporting for mutual insurers that do not prepare U.S. GAAP financial statements and do not file with the SEC.

   *NAIC staff understand these concerns and will plan to work with interested parties on finding the best language to accomplish the goals.*

After the 2019 Fall National Meeting, the Working Group sent a referral to the Group Solvency Issues (E) Working Group that outlines agenda item 2019-34 and asked for any further guidance or clarification. The Group Solvency Issues (E) Working Group recommended consideration of a new statutory disclosure that would provide information on minority ownership interests, as well as significant relationships between minority owners and other U.S. domestic insurers/groups. NAIC staff will draft proposed revisions to capture this information.
Summary:
At the 2019 Fall National Meeting, the Working Group exposed revisions which expand the MGA/TPA note in the following statements:

- SSAP No. 51R—Life Contracts, paragraph 50,
- SSAP No. 53—Property Casualty Contracts—Premiums, paragraph 19,
- SSAP No. 54R—Individual and Group Accident and Health Contracts, paragraph 33 and
- SSAP No. 59—Credit Life and Accident and Health Insurance Contracts, paragraph 19

Two states have requested that the existing annual statement disclosure regarding managing general agent (MGA) and third-party administrator (TPA) be expanded to include additional information. The exposed revisions provide:

- Aggregate direct written premium and total premium written by MGA/TPA;
- Aggregate dollar amount of claims process / total claims processed by MGA/TPA; and
- Information on related party / affiliate status and if the MGA/TPA is independently audited and / or bonded.

The state sponsors have advocated that more transparency would also help in the assessment of the Enterprise Risk Management (ERM) framework, Own Risk Solvency Assessment (ORSA) report, market analysis reviews, operational risks, group analysis, and recovery and resolution considerations.

Interested Parties’ Comments:
Interested parties note that the proposal does not define a TPA. It just states that TPAs “that write direct policies or provide claims adjusting or other services.” That is overly broad and could include a variety of entities that provide services. The NAIC model (NAIC Third Party Administrator Act, or NAIC model) guidelines define TPAs as it relates to life/health and workers compensation. Also, the NAIC model definition has a long list of activities that are excluded from the definition, such as self-insured employers administering its own workers’ compensation, insurers administering coverage, producers engaged in selling insurance, attorneys handling claims, MGAs, etc. We recommend that the proposed disclosure reference the NAIC model so that there is consistency in the definition used in applying the guidance.

Additionally, it is unclear how the reporting threshold should be applied. The reporting applies to TPAs if “the claims adjusting services are greater than 5% of annual average claims volume”. Is that threshold based on the amount of claim dollars paid or the number of claims handled? Is that measured across all lines of business for the company? Would claims paid within insureds’ deductibles/SIRs be included? Depending on how this is defined, it could be quite burdensome for insurers to monitor. We recommend that the threshold be based on written premium, consistent with how other thresholds have been applied.

Recommended Action:
NAIC staff recommends that the Working Group adopt the exposed revisions with the modifications illustrated in the agenda item. In addition, the Working Group should direct that the modification to the annual statement illustration be forwarded to the Blanks (E) Working Group to coordinate on its concurrent exposure. The additional revisions are drafted to address interested parties’ comments as follows:
1. Consistent with interested parties’ recommendation, TPA has been defined to be consistent with the NAIC Model Guideline, VI-1090 Registration and Regulation of Third-Party Administrators (TPAs).

2. The sponsors of the agenda item indicated that they preferred to maintain a claims measure for determining which TPAs to be disclosed, instead of a written premium measure suggested by interested parties. However, to address the interested parties’ operational concerns the language has been revised from “claims adjusting services are greater than 5% of annual average claims volume” to “if the total count of claims processed by the TPA /MGA are greater than 5% of the total count of claims processed.”

If preferred by the Working Group, this item could be exposed with the minor modifications and included in the earlier comment deadline for May discussion. If this is chosen, the Working Group should also direct notification to the Blanks (E) Working Group of the proposed modifications for its concurrent exposure.

Excerpt of proposed edits with industry modifications shaded:

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Summary:
Surplus notes are unique statutory accounting items which have the characteristics of both debt and equity and are addressed in SSAP No. 41R—Surplus Notes. Surplus notes are debt instruments that are required to be subordinated to policyholders, claimants and all other creditors; with interest and principal repayments requiring approval by the domiciliary commissioner. As such, surplus notes are reported as equity for statutory accounting purposes. (This treatment is specific to statutory accounting. Surplus notes are reported as debt under U.S. GAAP.) Pursuant to the requirements of SSAP No. 41R, proceeds received by the issuer of a surplus note must be in the form of cash or other admitted assets meeting both value and liquidity requirements of the state of domicile’s commissioner.

In conjunction with agenda item 2018-07, originally a referral from the Reinsurance (E) Task Force, the Working Group has been discussing surplus notes where an “associated” asset is received by the surplus note issuer. These discussions have questioned whether a surplus note that does not result with an exchange of cash flows (as the cash flows offset with an associated asset), shall be considered surplus notes under SSAP No. 41R. Although the discussion on how to treat these surplus notes will occur in agenda item 2018-07, the Working Group directed that additional disclosures be captured in SSAP No. 41R. The intent of this agenda item is to consider new disclosures involving surplus notes to better identify these situations in the statutory financial statements.

Interested Parties’ Comments:
Interested parties understand regulators’ concerns that the details of certain transactions involving surplus notes may not be transparent to regulators who were not involved in the initial approval or ongoing review of such transactions. However, these transactions and the related pricing represent confidential information that we believe is inappropriate for public disclosure and may be misleading if presented in the proposed format.

Our concerns with the proposed disclosures are outlined in detail below, followed by our suggested revisions.

The proposed disclosures may not provide the desired transparency or consistency
Throughout the discussion on any potential revisions to SSAP No. 41R over the past twenty-two months, interested parties have agreed that robust disclosures should be added to SSAP No. 41R to fully reflect situations where a reporting entity receiving proceeds from the issuance of surplus notes used those proceeds to purchase an asset directly or indirectly from the holder of the surplus note. However, we also believe that these disclosures should be included in the financial statements of a ceding company, which would provide a much greater level of transparency and consistency in disclosure. We believe that in most situations where a surplus note issuer uses proceeds from the issuance to purchase an asset directly or indirectly from the holder of the surplus note, the surplus note issuer is an affiliated captive reinsurer. As some captive financial statements are not provided to the NAIC, we believe disclosure in the financial statements of the ceding company would provide a much greater level of transparency and consistency in disclosure for these transactions. Our proposed revisions include suggested language for this disclosure requirement.

The proposed disclosure goes beyond the stated regulatory concern and requires additional information that may be incorrectly interpreted.
We believe that the proposed disclosure departs from the original regulatory concern expressed in the public meetings of the Working Group, namely that a reporting entity should not be permitted to circumvent regulatory authority as it relates to the preservation of capital at a regulated entity by contractually linking the cash outflows associated with a surplus note to cash inflows from another financial instrument held by the surplus note issuer. However, rather than identify such transactions, the proposed disclosure would require detailed information about surplus note interest regardless of whether cash flows are contractually linked. We are concerned that the operational burden of compiling this information for all surplus notes with netting provisions exceeds the benefit to regulators of providing information on the few transactions of concern.

Interested parties note that the scope of the proposed disclosure is substantially identical to that of the recent surplus note data call issued by the NAIC. The stated intent of this data call was to obtain information on surplus note transactions without regard to whether offsetting of cash flows was due to: a) contractual linkage or b) administrative offset provisions. While we agree that this scope was appropriate to assess the universe of affected transactions, we do not believe it is the appropriate scope for an Annual Statement disclosure and could be misleading in certain cases as outlined below.

The proposed disclosure includes confidential information that is not appropriate for public filings.
The proposal would require the disclosure of surplus note interest paid, net of any payments made by the surplus note holder. As a practical matter, for many captive structures, this amount often corresponds to the fees paid to the financing provider(s) to provide liquidity in the event of adverse experience or other conditions with respect to the subject policies, as defined in the applicable agreement.

The pricing and terms of the subject transactions were heavily vetted, negotiated, and submitted to state regulators for approval with the reasonable understanding that this information was subject to robust confidentiality protections. We do not object to this information being made available to regulators in the context of a confidential data call or regulator communication. However, we are concerned with its inclusion in public filings. The primary focus should be on whether the surplus note issuer is statutorily solvent rather than its surplus note pricing terms.

The net presentation of interest paid could be misleading for some transactions
We also believe that the change to the current disclosure to replace surplus note interest paid with interest paid net of amounts offset is problematic. We believe this disclosure could be misleading for many of the transactions in the
scope of the disclosure, given that the full amount of surplus note interest paid was/would be due regardless of whether a portion is offset pursuant to an administrative netting arrangement.

**Proposed Revisions**

Interested parties recommend revisions to the proposed disclosures which would provide regulators who are not involved in the approval and ongoing review of a surplus note transaction with information to assess the nature of the transaction and to determine whether more detailed review is needed. Specifically, our revisions would require disclosure of whether cash flows are offset but would differentiate between administrative offsetting and the contractual “linkage” that is of concern to regulators. These revisions would also remove information that we believe is confidential in nature and would not be appropriate for public disclosure. Finally, we have proposed several additions to the required disclosures, which we believe would provide useful information about transactions involving surplus notes.

Our suggested revisions to the disclosures are included in Exhibit A and summarized below. For ease of review, revisions proposed by NAIC staff have been accepted, and interested parties’ comments are presented as tracked changes.

**Summary of Proposed Revisions**

- Expand the disclosure requirement to the financial statements of the ceding company as well as the surplus note issuer.
- Retain the current disclosure of total interest paid (gross of any administrative or other netting)
- Replace quantitative disclosure of “interest remitted” and “cost of liquidity” with three Y/N disclosure columns which correspond to the criteria used in the data call scoping:
  1. Do surplus note / associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus notes and amounts receivable under other agreements contractually linked? (For example, the asset provides interest payments only when the surplus note provides interest payments.)
  2. Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets that would normally occur throughout the duration, or at maturity, of the agreement. (This may be referred to as administrative offsetting)?
  3. Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note?
- Replace confidential information about 3rd party liquidity (e.g. maximum liquidity amount and cost of liquidity source) with a description of terms under which liquidity would be provided should a triggering event occur.
- Add requirement for narrative disclosure of any related guarantees or support agreements.

[Proposed changes from interested parties have been highlighted below].

**Disclosures**

18. The notes to the financial statements of a reporting entity that issues surplus notes shall disclose the following as long as the surplus notes are outstanding:

a. Date issued;

b. Description and fair value of the assets received;
c. Holder of the note or if public, the names of the underwriter and trustee, with identification on whether the holder of the surplus note is a related party per SSAP No. 25;
d. **Original issue** amount of note;
e. Carrying value of note;
f. The rate at which interest accrues;
g. Maturity dates or repayment schedules, if stated;
h. Unapproved interest and/or principal;
i. Life-to-date and current year approved interest and/or principal recognized
j. Disclosure of whether the surplus note was issued as “paid” part of a transaction with identification any of the following attributes:
   i. Do surplus note / associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus note and amounts receivable under other agreements contractually linked (For example, the asset provides amount of approved interest and/or principal remitted payments only when the surplus note provides interest payments);
   ii. Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets that would normally occur throughout the duration, or at maturity, of the agreement (This may be referred to as administrative offsetting.)
   iii. Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note, (actual transfer of cash / assets) and the amount of approved interest and/or principal not remitted to the holder of the surplus note (no transfer of cash / assets);
   h. Information regarding a 3rd party liquidity source including name, identification if a related party, cost of the liquidity guarantee, and maximum amount available should a triggering event occur.
   k. Principal amount and fair value of assets received upon Surplus Note issuance, if applicable.
   l. Subordination terms;
j-m. Liquidation preference to the reporting entity’s common and preferred shareholders;
n. The repayment conditions and restrictions.
k-o. Information about any guarantees, support agreements, or related party transactions associated with the surplus note issuance, and whether payments have been made under such agreements.

19. If a reporting entity has ceded business to a surplus note issuer that is not remitting actual cash or assets to a related party as part of a reinsurance transaction in which the surplus note meets any of the criteria in 18. j above, the ceding entity shall provide a description of the transaction, including whether the criteria in 18. j above were met with respect to the surplus note issuance, as long as the reinsurance agreement remains in force. The ceding entity should provide a description of the risks reinsured, the related party reinsurer, any guarantees or support agreements and the amount of notes outstanding.

19-20. If the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note for approved interest or principal (as reported under paragraph 18.h), because the reporting entity is offsetting the amount owed under the surplus note with an amount receivable from a reported asset, the following information shall be disclosed regarding the offsetting asset:
   a. Identification of asset, including the investment schedule where the asset is reported and reported NAIC designation;
   b. Book/adjusted carrying value of asset and interest income recognized in as of the current year reporting date.
c. Amount of principle return and interest income from the asset not received by the reporting entity as the amounts were offset with approved amounts owed by the reporting entity’s issued surplus note. A description of terms under which liquidity would be provided should a triggering event occur.

20. In addition to the above, a reporting entity shall identify all affiliates that hold any portion of a surplus debenture or similar obligation (including an offering registered under the Securities Act of 1933 or distributed pursuant to rule 144A under the Securities Act of 1933), and any holder of 10% or more of the outstanding amount of any surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.

Recommended Action:
NAIC staff agree that the proposed edits by interested parties (as seen above), in essence, require disclosure of the desired items as detailed in the agenda item. Additionally, in some cases, the proposed edits expanded surplus note structure disclosures. **NAIC staff recommends that the Working Group expose this agenda item with the shortened comment deadline, with the revisions as proposed by interested parties. The proposed Blanks disclosures includes both edits suggested by interested parties with a few further modifications proposed by NAIC staff.** For readability and due to the amount of proposed changes, the proposed Blanks revisions are documented in the agenda item. (This item is proposed to have a shortened comment deadline for concurrent blanks consideration.)

These revisions will require additional disclosures regarding the issuance of Surplus Notes – specifically those structured in a manner in which typical cashflows have been reduced or eliminated.

*(Agenda item 2018-07 and the discussion of whether linked surplus notes should be in scope of SSAP No. 41R will be revisited during the Summer National Meeting.)*

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**Summary:**
During the 2019 Fall National Meeting, the Working Group exposed proposed revisions to address potential misinterpretation for Blank instructions on Schedule DB-D, section 1, column 4 (Fair Value of Acceptable Collateral). This issue exists as collateral is reported as 1) the fair value of collateral pledged by a counterparty, or 2) for central clearinghouses as the net positive variation margin received by the reporting entity.

NAIC staff believes the intent of net positive variation margin was originally meant to reflect net realizable margin. For example, if a reporting entity originally paid $5k as collateral to initiate a position, then subsequently received $15k in variation margin true-up, the reporting entity should report $10k in the fair value of acceptable collateral (assuming the counterparty has the legal right to offset the original $5k received). With the legal right to offset, in this example the holder can only realize a net $10k in collateral if liquidation were to occur. As the instructions indicate “net positive variation margin,” the variation collateral of $15k could be reported, disregarding the $5k initial margin.

Conversely, had the reporting entity received $5k in initial margin, and a subsequent $20k in variation margin, a total of $25k should be reported as collateral, thus giving credit for the initial margin received. NAIC staff believe this intent is articulated in SSAP No. 86, as collateral is defined in the disclosures as “net assets held.”
This agenda item included proposed clarification language that collateral shall be determined by the summation of any assets held less any collateral paid/pledged from collateral received, if the counterparty has a legal right to offset as defined in SSAP No. 64.

Interested Parties’ Comments:
Interested parties fully support the appropriate depiction within the statutory financial statements and schedules of the availability of insurance company assets to fulfill policyholder obligations, including consideration of a reporting entity’s access to and control over the assets and any contingencies pertaining to the attendant rights & benefits of ownership. We appreciate the opportunity to dialogue further on this matter and ensure the regulatory objective is achieved regarding both financial statement presentation and the risk-based assessment of capital.

The ability to make efficient use of derivative instruments as part of hedging transactions, income generation transactions and replication (synthetic asset) transactions, in accordance with SSAP No. 86 – Derivatives (“SSAP No. 86”), is a crucial component of insurers’ ability to effectively manage risk and prudently maintain yields in support of our ability to deliver on promises to our policy and contract holders. With broader federal regulation now driving a migration for many of the interest rate and credit derivatives insurers use to these ends towards the central clearinghouse or “cleared” space, the significance of appropriately depicting the specific economic substance and attendant risks associated with each of the various forms of collateral posted to central clearinghouses has never been greater.

Given this backdrop, our concerns with exposure 2019-39 are as follows:

1) The language in the proposal does not provide clear, consistent definition of scope or objective(s);
2) The exchange of initial margin on cleared trades represents a contingency distinct from that associated with the exchange of variation margin; and
3) The existing statutory accounting, reporting and risk-based capital models already appropriately depict the economic substance and inherent risk associated with the exchange of initial margin, and the proposed changes would result in inappropriate duplication of risk-based capital charges.

In terms of intended scope, the narrative commentary and proposed updates to existing guidance make it unclear as to whether the proposal aims to refine accounting & reporting guidance for:

- initial margin, variation margin, or both;
- bilateral (over-the-counter, “OTC”) trades, trades executed with central clearinghouses, or both;
- exchanges of cash collateral, non-cash collateral (e.g. securities) or both.

The summary introduction to the proposal appears to target a perceived issue with the Schedule DB-D, Section 1 reporting of initial margin exchanged with central clearinghouses. The narrative commentary provided does not identify specific concerns pertaining to the reporting of collateral associated with bilateral OTC trades or variation margin. However, the attendant proposed edits to SSAP No. 86 and the Blank Instructions for Schedule DB-D, Section 1 encompass collateral exchanges with both bilateral OTC counterparties and central clearinghouses…inherently scoping in both OTC and cleared trades as well as all forms of collateral (variation margin, initial margin and traditional margin on legacy bilateral OTC trades). In addition, the proposal makes no clear distinction between proposed updates regarding exchanges of cash collateral vs exchanges of non-cash collateral, often using the terms collectively and interchangeably, whereas the guidance within the AP&P Manual makes clear distinctions regarding their respective accounting and reporting - as they have distinct implications for users of statutory financial statements. The guidance for cash collateral exchanges under SSAP No. 103R – Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (“SSAP 103R”) paragraphs 19 & 20 is distinct from that of non-cash collateral exchanges, which is also further detailed in INT 01-31 – Assets Pledged as Collateral (“INT 01-31”). Anecdotally, though the SSAP No. 86 Appendix C guidance for the initial carrying value on futures paraphrased in the 2019-39 exposure commentary applies to exchange traded derivatives (which
do not appear to be within the scope of this current exposure), it maintains conceptual symmetry with the distinct cash collateral guidance from SSAP No. 103R; classifying only cash postings of initial margin as a form of basis deposit necessitating distinct accounting and financial statement presentation. Additional clarification regarding both the perceived issue(s) and the objective(s) underlying the proposed updates is requested in order to ensure industry can assist in fully and appropriately addressing each underlying concern in light of the applicable regulatory objective(s).

The exchange of initial margin with central clearinghouses is clearly distinct in function from the exchange of variation margin. As referenced in the proposal, initial margin is a minimum amount of equity that must be provided to a clearinghouse to initiate a position. It effectively represents the deposit of chips required to play at the table (“table stakes”), and is required from both respective parties entering into the derivative transaction as protection for the clearinghouse against the potential that either respective party will not make good on its respective commitments (i.e., initial and continuing participation in the transaction and the associated exchanges of variation margin driven by the derivative price movements until expiry or novation) – leaving the clearinghouse exposed, as intermediary, to the remaining party. Once such a trade expires or is novated, assuming the respective party has made good on all its variation margin payments during the course of the trade being open, the asset(s) posted to the clearinghouse as initial margin is returned to that exiting party. In the instance that a party exiting the derivative transaction has not stayed current with its respective variation margin obligations, the clearinghouse will return the remaining value of the initial margin after settling up the unpaid variation margin obligations. As such, the contingencies associated with maintenance of exclusive control over the rights and benefits of asset ownership for an entity posting initial margin are primarily a function of the entity’s continuing involvement in the trade with the clearinghouse, which is distinct from the derivative price movement contingencies directly associated with variation margin.

Reporting entities often utilize non-cash collateral (e.g., US Treasuries) for posting as initial margin to clearinghouses, as the required initial margin value can be comparatively high (driven by risk adjusted trailing price volatility of the underlying derivative and overcollateralization conventions) but the reporting entity maintains the full rights & benefits of ownership over an already held yield generating asset – in many instances preferable to locking up a chunk of otherwise investible cash. The ability to maintain full control over the rights and benefits of ownership on this yield generating non-cash collateral posted (e.g., avoiding forced sales of the non-cash collateral to satisfy unfulfilled variation margin obligations) also incentivizes a reporting entity to remain current on variation margin obligations while the trade remains open.

Existing statutory accounting guidance (e.g., the previously referenced SSAP No. 103R and INT 01-31) already provides for appropriate classification, measurement and presentation of collateral posted as initial margin. In the much more likely instance that non-cash collateral has been posted to a clearinghouse as initial margin, the pledging insurer continues to record the pledged collateral as an admitted asset until they have committed a contract default that has not been cured. In the unlikely instance that the non-cash collateral has to be liquidated in order to satisfy unmet variation margin payment obligations associated with a trade being exited, any associated realized loss would be recognized and the reclassification of the remaining initial margin value due back from the clearing house will be recorded – likely as either cash or a receivable - in accordance with applicable statutory guidance. The Blanks instructions require that any such non-cash or cash collateral posted as initial margin be marked as such on the attendant investment schedule, identified at the specific asset level on Schedule DB-D Section 2 (complete with an identifier indicating that the posting represents initial margin) and summarized within Note 5 (Restricted Assets). As such, the availability of the assets to fulfill policyholder obligations, as well as identification at the specific asset level of the unique and specific contingencies associated with initial margin posting are already presented appropriately for the consideration of financial statement users. Altering the presentation of initial margin postings on the summary Schedule DB-D Section 1 would not augment a financial statement user’s understanding of the reporting entity’s solvency or financial condition, as the “net realizable margin” associated with the open derivative contracts is already appropriately presented – initial margin posted is not directly or typically subject to the derivative price movement contingencies inherent in arriving at an appropriate “Exposure Net of Collateral” total on Schedule DB-D Section 1.
Equally as important, incorporation of initial margin posted into the “Exposure Net of Collateral” total on Schedule DB-D Section 1 would lead to inappropriate and misleading downstream consequences for a reporting entity’s Risk Based Capital calculation. Any collateral (whether non-cash or cash) posted as initial margin is already captured in the Life RBC formula on LR017 (Off Balance Sheet and Other Items), where all collateral postings are pulled directly from Schedule DB-D Section 2 and assessed RBC charges associated with the specific contingency of pledging of the assets to an external counterparty. Thus, netting initial margin postings into the “Exposure Net of Collateral” total on Schedule DB-D Section 1 would make the total derivative exposure (net of collateral) that flows through to LR012 in the Life RBC formula too high – inappropriately double counting the RBC charges associated with the posting of initial margin to a clearinghouse. In addition, the understatement of net realizable collateral (Fair Value of Acceptable Collateral) on Schedule DB-D Section 1 would also, in many instances, mechanically carry through to overstate the “Off Balance Sheet Exposure” reported on the same schedule – which would result in even further overstatement of RBC charges as this “Off Balance Sheet Exposure” flows through the Life RBC formula to be assessed charges on LR017. Doubling, and possibly tripling the RBC charges associated with the posting of initial margin to a central clearinghouse is not an appropriate depiction of true risk for such margin.

Given the ambiguities in the exposure language, the appropriate depiction of economic substance and inherent risk associated with exchanging initial margin within the existing statutory accounting, reporting and RBC frameworks, and the importance of maintaining insurers’ ability to utilize cleared derivatives to effectively manage risk and prudently support yields, we respectfully request that the Working Group withdraw the current proposal and direct NAIC Staff to collaborate with industry to specify and appropriately address any remaining concerns. We stand ready to work through any lingering misgivings the Working Group may have with regard to financial statement presentation but request that such endeavors be empirically grounded in specific observed instances of incomplete or inappropriate reporting.

**Recommended Action:**
The original intent of the agenda item was to facilitate a discussion regarding if a reporting entity should report or potentially receive ‘credit’ for initial margin pledged from a counterparty in central clearinghouse transactions. However, from in-depth discussions with interested parties, NAIC staff agree that the utilization of third-party initial margin is not only an incredibly rare event, that such utilization would only occur in a series unlikely adverse actions, all of which have various compensating controls to ensure variation margin transfer/compliance. Further, while also remote, retroactive reductions in central clearing houses margin return to the counterparty and do not convert into variation margin.

It is also important to note that reporting entities often utilize non-cash collateral (e.g., US Treasuries) for posting initial margin to clearinghouses. Maintaining such collateral on the books of the collateral provider is appropriate as they maintain the full rights & benefits of ownership of the asset.

**In summary,** NAIC staff believe third-party derivative exposure through centrally cleared exchanges is appropriately captured in the existing disclosure requirements and in the Blanks. Accordingly, NAIC staff recommend the Working Group dispose of this agenda item without statutory revision.
Summary:

1. Revises the existing guidance, which prohibits grading-in changes in valuation basis unless provided for in the statement, to allow a grade-in for changes in valuation basis if permitted by the statement or the Valuation Manual in section VM-21 Requirements for Principle-Based Reserves for Variable Annuities (VM-21). Historically choosing effective dates for major reserving changes for the Accounting Practices and Procedures Manual has been determined by Working Group, for example the 2001 CSO table (adopted in 2002) was effective for policies January 1, 2004 in Appendix A-820. This has been to promote consistent implementation and reporting. By deferring to the VM-21 on grade-in options with many varied features, there will be less comparability in reporting, because there is more optionality in reserve reporting. Therefore, additional disclosure regarding grade-in has been proposed.

2. A change in valuation basis under SSAP No. 51R is recognized through surplus. As the unrecognized graded-in reserve represents an unrecognized adjustment to surplus, the revisions require the unrecognized grade-in amount from a change in valuation basis, if resulting with an increase in reserves (decrease from surplus), to be reported as an allocation from unassigned funds to special surplus until the amount has been fully graded into unassigned funds. The reclassification from unassigned funds to special surplus does not reduce total surplus. This is to provide transparency regarding the increased reserve amount that has not been reflected into surplus. As amounts are graded-in to reduce surplus, the amount in special surplus is reclassified to unassigned funds.

3. The proposed revisions to SSAP No. 51R expand the disclosure for changes in valuation basis as a change in accounting principle under SSAP No. 3 to also include details regarding grade-ins of changes in valuation basis, including the grade-in period applied, the remaining amount to be graded-in, remaining time for the grade-in period and the initial grade-in amount and any adjustments to the original amount.

4. Adds a reference in SSAP No. 3 regarding additional disclosures of grade-in features.

Notice of the exposure was also sent to the Life Actuarial (A) Task Force as part of the Valuation Manual and Accounting Practices and Procedures Manual coordination process.

Interested Parties’ Comments:
This exposure consists of several parts, some of which we agree with and others we find both confusing and unnecessary. We agree that documentation of the choices made among the options for phase-in in VM-21 and the impact of those choices is important. The exposed edits focus on the adoption of the new reserve requirements for variable annuities (revised VM-21 and AG-43). Information on those choices and impacts will be provided to regulators through the PBR Actuarial Memorandum required by VM-31. This includes highlighting the elements of any Phase-in in the executive summary of the PBR Actuarial Memorandum. Given the current requirements of SSAP3 and SSAP51, documentation in the notes to the Annual Statement is also appropriate.
In Recommendation #2, the proposal would require the amounts from the Phase-in to be designated as “special surplus”. We disagree with this recommendation for the following reasons:

- This is a new requirement whose need has not been established. Disclosure of the amounts will provide information necessary for users of the financial statements to understand the basis of the reported financials.
- SSAP72 defines Special Surplus as amounts designated for specific contingencies. Recommendation #2 would be a change to the definition and purpose of special surplus that is inappropriate and would create an undesirable precedent.

Finally, the proposed language is unnecessary, and possibly confusing. VM-21 defines the minimum reserve requirement. Within that requirement, the company has the option to compute the reserves using the Phase-in provision of Section 2.B. Whichever option is elected, VM-21 defines the reserve. SSAP51 defines the amount of the “Change in Basis” as the difference between the amount under the prior VM-21 and the amount required by the current VM-21 as of 1/1/2020. If the Phase-in has been elected, that difference will generally be zero. The change in basis amount as defined in SSAP51 paragraph 39 is not being graded in – it is what it is following the VM-21 reserve requirements as stated. As such, SSAP51 does not need to make provision for a grade in. We propose the attached language as being clearer in defining the amounts to be disclosed, to use language consistent with VM-21, and to recognize the role of VM-21 to define the reserve requirement.

Interested Parties illustration is on pages 32-34 of the comments.

Recommended Action:
NAIC Staff recommends that the Working Group adopt the exposed revisions, incorporating interested parties proposed edits of removing the reclassification to special surplus as summarized and illustrated in the agenda item and below. The proposed text for adoption does not incorporate all of the interested parties’ revisions. If preferred, the Working Group could have a short re-exposure, but such a deferral may raise first quarter reporting concerns. If re-exposed, the Life Actuarial (A) Task Force should be notified of the exposure.

NAIC Staff does not propose to incorporate the following revisions requested by Interested Parties:

- SSAP No. 51, paragraph 39, 40 and SSAP No. 3 - Keep the exposed grade in guidance as which defers only to the VM 21 CARVM grade in guidance and requires coordination on future VM grade in proposals.
- SSAP No. 51, paragraph 40 – did not add industry proposed language on retroactivity.

NAIC Staff illustration incorporates the following revisions requested by Interested Parties:

- SSAP No. 51, paragraph 39 and subparagraphs c and d – Delete the exposed reclassification to special surplus until the grade in for reserving amount is fully recognized. Most entities will have a short-term impact (three years) and disclosure should be adequate.
- SSAP No. 51, paragraph 39/40 – Maintain the existing language on changes in accounting in paragraph 39 instead of moving it paragraph 40 as proposed in the exposure.
- SSAP No. 51, paragraph subparagraphs and SSAP No. 3 – editorial - Change “grade-in” to “phase in” as suggested by interested parties to maintain consistency with SSAP No. 51 and the Valuation Manual.
“Clean version” of revisions tracked only to SSAP 51R and SSAP No. 3 with shading new wording

SSAP No. 51R

39. The impact of a change in valuation basis on surplus is based on the difference between the reported reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless this statement or the Valuation Manual in section VM-21 Requirements for Principle-Based Reserves for Variable Annuities (VM-21) prescribes a new method and a specific transition that allows for grading. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies in force for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. Effective January 1, 2020, if the Valuation Manual section VM-21 (on variable annuities) or this statement prescribes or permits a grading in period or provides the option of multiple grading periods, reporting entities shall also include in the change in accounting disclosures required by SSAP No. 3, disclosure of the following:

   a. the phase in period being applied, and the remaining time period of the phase in
   b. any adjustments to the phase in period.
   c. amount of change in valuation basis phase in, -and
   d. the remaining amount to be phased-in.

40. The Valuation Manual is effective prospectively for policies written on or after the operative date, however, as the CARVM methodology was already principles based, some changes to the CARVM methodology in section VM-21 (on variable annuities) and to the related AG 43 may result in retroactive application to the reserving for existing contracts. Therefore, upon the initial prospective adoption of principle-based reserving, the change in valuation basis reflected as an adjustment to surplus for most entities will be zero. After initial adoption of the Valuation Manual, changes in valuation basis will need to be evaluated to determine the amount of any surplus adjustments.

SSAP No. 3—Accounting Changes and Corrections of Errors

Disclosures

13. Disclosure of material changes in accounting and correction of errors shall include:

   a. A brief description of the change, encompassing a general disclosure of the reason and justification for change or correction;

   b. The impact of the change or correction on net income, surplus, total assets, and total liabilities for the two years presented in the financial statements (i.e., the balance sheet and statement of income and operations); and

   c. The effect on net income of the current period for a change in estimate that affects several future periods, such as a change in the service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts; however, disclosure is recommended if the effect of a change in the estimate is material;

   d. Changes in accounting that are changes in reserve valuation basis as described in SSAP No. 51R—Life Contracts which have elected phase in provided for in the Valuation Manual
Section VM 21, shall also include in the change in accounting disclosures information regarding the application of any phase in as provided for in SSAP No. 51R, and e. When subsequent financial statements are issued containing comparative restated results as a result of the filing of an amended financial statement, the reporting entity shall disclose that the prior period has been restated and the nature and amount of such restatement.

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**Summary:**
At the 2019 Summer National Meeting, the Statutory Accounting Principles (E) Working Group, the Casualty Actuarial and Statistical (C) Task Force and the Surplus Lines (C) Task Force received a request from the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries Working Group. The request was to clarify the accounting and reporting for retroactive reinsurance which meets the SSAP No. 62R—Property and Casualty Reinsurance exceptions to be accounted for as prospective reinsurance. The request specifically asked for the NAIC groups to:

- Provide consistent guidance on the reporting treatment to both the ceding entity and assuming entity, where both are members of the same group and are consolidated in the same Combined Annual Statement.
- Clarify the reporting method to be used if the ceding entity and assuming entity are not in the same group.

During the 2019 Fall National Meeting, this Working Group exposed agenda item 2019-49 to address the inconsistencies in application of the reinsurance accounting and reporting guidance, particularly the impact on Schedule P—Analysis of Losses and Loss Expenses (Schedule P) that were highlighted in the request. The goal of this agenda item was to clarify both the accounting and reporting for retroactive contracts which are accounted for prospectively, including:

- Both the ceding entity and assuming entity, where both are members of the same group and are consolidated in the same Combined Annual Statement.
- The reporting method to be used if the ceding entity and assuming entity are not in the same group.

The Working Group also directed notice of the exposure and the request for volunteers to be sent to the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group.

**Interested Parties’ Comments:**
With regard to retroactive portfolio transfer deals within the same group that qualify for prospective treatment, interested parties identified the following issues related to reporting transactions in Schedule P.

**Main Issues**
- Should there be a requirement to have offsetting entries for the ceding and assuming entity within the group, such that the group Schedule P is not impacted (and industry Schedule P is not impacted)? (If so, then the ceding entity can’t record ceded amounts for prior AYs while the assuming company records assumed amounts all in the current CY/AY.)
• Should retroactive changes in previous premium amounts be allowed? (If no, and there is a desire to have both entities record the ceded/assumed in the affected older AYs, then the reinsurance premium would need to be treated as a paid loss – positive paid for the ceding entity and negative paid for the assuming entity.)

• Should the reporting prevent “cliffs” in the historic development reported in Schedule P. (If the cede transaction is reported as a premium and spreading to prior CYs, effectively changing prior values retroactively, then the prior incurred loss amounts in Schedule P, Part 2 would need to be adjusted to avoid a “cliff”). Note that cliffs in Schedule P, Part 2 can have a material RBC impact with regard to the company experience adjustment.

Two Alternative Approaches
Interested parties identified two alternative approaches to recording intercompany, retroactive reinsurance:

• Record the reinsurance premium as a paid loss (positive paid for the cedant, negative for the assuming company), spreading the “premium” to the same AYs as the ceded losses. This avoids cliffs and avoids restating past CY Earned Premium, although it produces unusual results for the assuming company’s Schedule P.

• Record the reinsurance premium as premium, restating prior CY Earned Premium. Spread losses to the impacted AYs. This would create cliffs in Schedule P unless prior AYs are restated for the impact by AY of the reinsurance contract at inception.

Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries Working Group

Comments received from COPFLR immediately prior to the Spring National Meeting have been included in the comment letter packet. The letter is in response to comments and inquiries regarding the prior COPLFR letter made by a member of the Casualty Actuarial and Statistical (C) Task Force.

Note: The company specific annual statement filings included as attachments to the most recent COPLFR letter were not included in the comment letter packet, but will be included for interim discussions.

Recommended Action:
No action is needed by the Working Group during the 2020 Spring National Meeting. NAIC staff received some volunteers and plans to hold calls in the interim and will keep the Working Group updated on activities.

The Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries Working Group provided follow up comments to address interim comments by members of the Casualty Actuarial and Statistical (E) Task Force. Note Company Specific Exhibits and the prior COPLFR comments were not included in the comment letters but will be included in interim discussions).

The comment letters are included in Attachment 32 (54 pages).
A. Consideration of Maintenance Agenda – Pending List

1. Ref #2020-01: Update / Remove References to SVO Listings
2. Ref #2020-02: Accounting for Bond Tender Offers
3. Ref #2020-03: Enhanced Goodwill Disclosures
5. Ref #2020-05: Repeal of the Affordable Care Act Section 9010 Assessment
6. Ref #2020-06EP: Editorial and Maintenance Update
7. Ref #2020-07: Change to the Summary Investment Schedule
8. Ref #2020-08: ASU 2016-20, Technical Corrections & Improvements - Topic 606
11. Ref #2020-11: ASU 2020-02—Amendments to SEC Paragraphs in Credit Losses and Leases

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<td>2020-01</td>
<td>Update / Remove References to SVO Listings</td>
<td>A - Agenda Item</td>
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<td>SSAP No. 26R</td>
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<td>SSAP No. 30R</td>
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Summary:

1. The first proposal was to rename the “U.S. Direct Obligations/Full Faith and Credit Exempt List” to the “NAIC U.S. Government Money Market Fund List.” No revisions to the NAIC Accounting Practices and Procedures (AP&P) Manual would be required, as this list is not specifically identified. (Revisions would however likely be needed in the Blanks and RBC filings / instructions.)

2. The second proposal was to discontinue the “NAIC Bond Fund List.” Items which were on this list would be eligible for consideration for the “NAIC Fixed Income-Like SEC Registered Funds List.” The discontinuance of usage of the NAIC Bond Fund List will require an update in the AP&P Manual. (Although the “bond list,” this listing requires 100% government securities in the fund.)

Recommendation:
NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to 1) SSAP No. 26R—Bonds and SSAP No. 30R—Unaffiliated Common Stock to eliminate references to the NAIC Bond Fund List (Bond List) and 2) add reference to the “NAIC Fixed Income-Like SEC Registered Funds List” in SSAP No. 30R. (This item will have shortened exposure period to allow for a timely response back to the Task Force.)

Although the Working Group is recommended to proceed with exposure on this agenda item and solicit comments for consideration, final action and determination of an effective date will not occur until revisions have first been adopted by the Valuation of Securities (E) Task Force. NAIC SAPWG staff will coordinate with the VOSTF staff to stay current on their discussion and action on this item. NAIC staff also notes that referrals to the Blanks (E) Working Group and the Capital Adequacy (E) Task Force will be needed to reflect the title change in Blanks and RBC. NAIC staff also highlights that the reference to the SVO “bond fund list” often causes confusion as this listing only includes funds with 100% of their investments in U.S. Government Securities. If the action to delete the listing does not occur at the Task Force, NAIC staff would recommend that the listing name be revised to reflect the “U.S. Government Fund” to eliminate confusion through reference as a “bond fund” listing.
**Summary:**
Questions have arisen regarding the accounting treatment for when a held bond is retired early through the acceptance of a “bond tender offer.” A bond tender offer occurs when the bond issuer repurchases some, or all, of a particular bond issuance prior to its scheduled maturity date. These offers are generally an attempt to retire a substantial amount of outstanding debt by making a one-time, special offer to bond holders. Generally, the purpose of a tender offer is to retire bonds that were originally issued at higher interest rates; however, some tender offers have occurred as a mechanism for capital restructuring. As expected, these activities are most common in a decreasing or depressed interest rate environment.

Tender offers typically share similar characteristics in that the offer is: 1) for a predetermined (finite) number of bonds, 2) a specified, nonnegotiable price, 3) available to the market as a whole – generally advertised through a press release, 4) only available for a limited period of time, and 5) contingent upon acceptance by a substantial percentage of debt holders – generally requiring accepted by at least 25% of those eligible for early buyout.

From a bond holder’s perspective, the only material difference between a called and tendered bond is that with the tender offer, the bond holder must elect to accept the repurchase offer. If the tender offer is not accepted, the bond’s terms (including scheduled maturity date) remain unchanged. Bond tender offers are generally offered at rates slightly above market value, as an economic enticement for the holder to “sell” the bond. This increased compensation is reflective of prepayment penalties and/or acceleration fees noted in called bonds. The reinvestment risk assumed by holding a bond with a call option is generally compensation through a higher yield or a known prepayment penalty. Similarly, through a bond tender offer, increased compensation comes in the form of additional termination payout as compared to current market value.

Specific guidance for the reporting and allocation of investment income and/or capital gain/loss associated with callable bonds (where the issuer, at its sole discretion, can redeem a bond before it scheduled maturity date) is noted in SSAP No. 26R—Bonds; however guidance is not reflected for when a bond is retired early through a tender offer. As previously discussed, called bonds and bond tender offers are similar in the fact that the issuer can retire a bond early, however with a bond tender offer, the holder must elect to accept the offer. If the offer is not accepted, the original terms of the bond are not modified.

**Recommendation:**
NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 26R—Bonds to clarify that the accounting and reporting of investment income and capital gain/loss, due to the early liquidation either through a call or a tender offer, shall be similarly applied. NAIC staff believes this is in line with original intent as the initial SSAP No. 26 codification guidance (still reflected in paragraph 16 of SSAP No. 26R) is not specific to called bonds. Rather, the guidance refers to “prepayment penalties or acceleration fees in the event the bond is liquidated prior to its scheduled termination date.” This guidance would seemingly include all dynamics in which an issuer provides a penalty / fee to the holder to terminate the bond.

A bond retired early through either a call or tender offer are functionally equivalent to a bond holder. The only potential additional consideration for the bond holder is that the yield-to-worst concept was likely not applied in relation to the bond tender offer (as the tender offer amount and date were not known/expected at the time of acquisition). However, this concern is negated as bond tender offers are generally at or above market value and the holder must elect to participate. If a bond tender offer is not economically beneficial to the holder, the holder would simply not participate.
Summary:
This agenda item was drafted to request additional goodwill information and to clarify reporting on Schedule D, Part 6, Section 1 – Valuation of Shares of Subsidiary, Controlled and Affiliated Companies.

1. With the adoption of agenda item 2017-18: Goodwill Limitations in SSAP No. 68—Business Combinations and Goodwill and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, the information reported regarding goodwill, as provided in annual statement footnote 3 – Business Combinations and Goodwill, has improved. This agenda item proposes additional disclosures to enhance the reporting of an SCA’s book adjusted carrying value (BACV). As goodwill is a significant component of many SCA’s BACV, this agenda item will assist in facilitating review and disclosure of each balance.

2. During a review of SCA Sub 2 filings, it is noted that many companies do not calculate the amortization of goodwill correctly, which sometimes overstates the value of the SCA. Many companies also do not provide additional information to verify beginning goodwill and purchase price; as such NAIC staff rely on a review Footnote 3 for these details. If the goodwill amount is not verifiable, it is not be allowed to be admitted as part of the SCA’s value.

3. The goodwill limitation of 10% of the insurance reporting entity’s goodwill is a calculation that all reporting entities who have goodwill must perform. While the admitted result is in the annual statement, the details of the calculation are not easily identifiable This agenda item proposes the addition of a disclosure to capture the admissibility information, to ensure transparency in the admission of goodwill.

Additionally, feedback is requested in terms of the proposed edits to Schedule D – Part 6 – Sections 1 and 2. As detailed in the proposal below, two column headings and related Blanks instruction refer to “Intangible Assets,” however NAIC staff believe the original intent of these disclosures were to capture goodwill. FASB defines intangible assets as assets (not including financial assets) that lack physical substance and refer to assets other than goodwill. Feedback is requested from regulators and interested parties regarding what has historically been included in this disclosure and if changing the definition to articulate goodwill is warranted. Upon a sampled review by NAIC staff, it appears as though goodwill is the sole number currently being reported in these applicable columns.

Recommendation:
Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 68—Business Combinations and Goodwill to add additional goodwill disclosures. The proposed disclosures will improve the validity and accuracy of numbers currently being reported and will assist with the regulators’ review of reported assets not readily available for the payment of policyholder claims.

Additionally, changes are proposed to Schedule D-6-1 and D-6-2, primarily focusing on the current reference to intangible assets. This exposure requests feedback on this disclosure and proposes language to clarify only goodwill shall be disclosure.
Summary:
The *Valuation Manual* became operative on January 1, 2017 and is required to be used for all applicable products effective January 1, 2020. This agenda item has been drafted to maintain comparability by providing disclosures regarding the use of commissioner discretion pursuant to the *Valuation Manual*.

The Authoritative Literature section in the agenda item has examples of items that require commissioner approval in the *Valuation Manual*. The items involve making a voluntary choice between various acceptable methods, which is subject to commissioner approval. The identified instances in the *Valuation Manual* are consistent with a change in valuation basis. Examples identified may include characteristics similar to the following:

1. Voluntarily moving between different commonly accepted methods of determining an amount;
2. The change of method is generally infrequent;
3. Changing methods is a voluntary choice, not an automatic change required by the methodology;
4. Change in valuation which must be typically justified to the commissioner prior to approval.

Because these changes are voluntary and not required to change by the methodology, this agenda item recommends disclosing the use of commissioner discretion required for choosing between acceptable methods, consistent with a change in valuation basis.

Recommendation:

NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 51R—*Life Contracts*, SSAP No. 52—*Deposit-Type Contracts* and SSAP No. 54R—*Individual and Group Accident and Health Contracts* as illustrated in the agenda item. The proposed disclosure notes that voluntary decisions to choose one allowable reserving methodology over another, which require commissioner approval under the *Valuation Manual* shall be reported as a change in valuation basis. As part of the coordination process with the *Valuation Manual*, the Life Actuarial (A) Task Force should be notified of the exposure.

Summary:

SSAP No. 106—*Affordable Care Act Section 9010 Assessment* addresses the Affordable Care Act (ACA) Section 9010 assessment for entities that issue health insurance. This assessment was effective for calendar years beginning on January 1, 2014. This assessment is also known as the health insurer’s tax (HIT).

The ACA Section 9010 assessment has had more than one moratorium, as addressed in *INT 16-01: ACA Section 9010 Assessment 2017 Moratorium*. The assessment is required to be paid for calendar year 2020. In December 2019, the House of Representatives and Senate passed year-end spending bills which repealed the Section 9010 assessment for calendar years beginning January 1, 2021. This bill was subsequently signed into law. This agenda item addresses the impacts of the repeal for calendar years beginning on January 1, 2021, by recommending the following actions:
• Superseding SSAP No. 106—Affordable Care Act Section 9010 Assessment
• Nullifying INT 16-01: ACA Section 9010 Assessment 2017 Moratorium

Recommendation:
NAIC Staff recommends that the Working Group move this item to the active listing, categorized as substantive and expose the intent to supersede SSAP No. 106—Affordable Care Act Section 9010 Assessment and nullify INT 16-01: ACA Section 9010 Assessment 2017 Moratorium. Both actions are proposed to be effective January 1, 2021. With these actions, both SSAP No. 106 and INT 16-01 would be moved to Appendix H - Superseded Statements of Statutory Accounting Principles and Nullified Interpretations for the 2021 publication of the NAIC Accounting Practices and Procedures Manual.

With these actions, NAIC staff should also be directed to coordinate the related impacts with the following NAIC Groups:

1. Blanks (E) Working Group – Ensure the annual statement disclosures related to SSAP No. 106 currently reported in Note 22 are removed from the annual statement instructions and annual statement blank beginning in reporting years 2021.


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<td>Editorial and Maintenance Update</td>
<td>F - Agenda Item</td>
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Summary:
Maintenance updates provide revisions to the NAIC Accounting Practices and Procedures Manual, such as editorial corrections, reference changes and formatting as summarized below:

• **SSAP No. 21R—Other Admitted Assets** - In paragraph 2, remove the excerpts from SSAP No. 4—Assets and Nonadmitted Assets regarding the definition and accounting treatment for admitted assets.

• **SSAP No. 51R—Life Contracts** - Update paragraph references in paragraph 36 related to change in valuation basis to be consistent with the originally adopted language in Issue Paper No. 154—Implementation of Principle Based Reserving, Exhibit A.

Recommendation:
NAIC staff recommends that the Working Group move this agenda item to the active listing, categorized as nonsubstantive, and expose the editorial revisions to SSAP No. 21R and SSAP No. 51R. *(This item is proposed to have a shortened exposure period.)*
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Summary:
SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures requires disclosures as detailed in Appendix A-001: Investments of Reporting Entities (A-001). Section 3 of A-001 requires the Summary Investment Schedule in the statutory annual statements and in the notes to the annual audited financial statements.

NAIC staff support for the Blanks (E) Working Group were notified of a crosscheck error within the Annual Reporting Blanks where total mortgage loans reported on the Summary Investment Schedule do not tie to the amounts reported in Schedule B, Part 1. After research, it was found that this is due to the Total Valuation Allowance not being included on the Summary Investment Schedule. This agenda item will add in Valuation Allowance to ensure that these schedules will tie together.

The purpose of the referral was to allow coordination to update the Appendix A-001 requirements for the Summary Investment Schedule and the related financial statement notes. This agenda item is intended to be exposed concurrently with a Blanks (E) Working Group proposal.

Recommendation:
NAIC staff recommends that the Working Group move this agenda item to the active listing, categorized as nonsubstantive, and expose revisions to Appendix A-001, Section 3, Summary Investment Schedule to add a line for Total Valuation Allowance. The updates proposed match those that are expected to be concurrently exposed by the Blanks (E) Working Group at the Spring National Meeting. (This item will have a shortened comment period to allow for adoption of the blanks proposal for year-end 2020.)

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<td>ASU 2016-20, Technical Corrections &amp; Improvements - Topic 606</td>
<td>H - Agenda item</td>
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<td>SSAP No. 47</td>
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Summary:
ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, was issued to clarify narrow aspects of the guidance issued in ASU 2014-09, Revenue from Contracts with Customers. In 2018, the Working Group rejected the guidance in ASU 2014-09 and several other ASUs related to Revenue Recognition in SSAP No. 47—Uninsured Plans. The guidance in ASU 2016-20 provides updates and clarifications based on issues that were found during the initial U.S. GAAP implementation of ASU 2014-09 and ASC Topic 606.

Recommendation:
NAIC Staff recommends the Working Group move this agenda item to the active listing, categorized as nonsubstantive and expose revisions to reject ASU 2016-20 in SSAP No. 47—Uninsured Plans. This recommendation is consistent with how the prior ASUs related to Topic 606 have been treated. (This item is proposed to have a shortened exposure period.)
Summary:

ASU 2018-18, Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606, clarifies and aligns revenue recognition under the new Topic 606 for collaborative arrangements. A collaborative arrangement is defined as a contractual arrangement that involves a joint operating activity, involving two (or more) parties that are both: 1) active participants in the activity and 2) are exposed to significant risks and rewards dependent on the commercial success of the activity. The intent of this guidance is to ensure that revenue recognized within a collaborative arrangement is consistent with revenue recognition in Topic 606.

Recommendation:

NAIC Staff recommends the Working Group move this agenda item to the active listing, categorized as nonsubstantive and expose revisions to reject ASU 2018-18 in SSAP No. 47—Uninsured Plans. This recommendation is consistent with the treatment of prior ASUs related to Topic 606. (This item is proposed to have a shortened exposure period.)

Summary:


The revisions to Topic 220 update references from “income statement” to “statement of comprehensive income” and add a reference to revenue recognition in Topic 606. The revisions to Topic 605 remove guidance from and references to SEC Staff Accounting Bulletin 13, Revenue Recognition. The updates to Topic 606 add in guidance from SEC Release No. 33-10403, which is guidance for revenue recognition for sales of vaccines and bioterror countermeasures to the federal government for strategic national stockpiles, specifically for SEC registrants.

Recommendation:

NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606), Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 116 and SEC Release No. 33-10403 as not applicable to statutory accounting. This item is proposed to be rejected as not applicable as ASU 2017-14 is specific to deletion and modification of SEC paragraphs, which are not applicable for statutory accounting purposes. (This item is proposed to have a shortened exposure period.)
Summary:
ASU 2020-02, Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842), which effects the codification in Credit Losses (Topic 326) and Leases (Topic 842).

The update provides a new SEC section in Topic 326 that clarifies reporting for SEC registrants and updates the effective date for these provisions. The updates to Topic 842 update the effective dates for the new lease guidance for SEC reporting companies.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2020-02, Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) as not applicable to statutory accounting. This item is proposed to be rejected as not applicable as ASU 2020-02 is specific to deletion of SEC paragraphs, which are not applicable for statutory accounting purposes. (This item is proposed to have a shortened exposure period.)

B. Consideration of Maintenance Agenda – Active Listing

Summary:
This agenda item was originally presented during the 2019 Summer National Meeting to clarify the scope of SSAP No. 43R—Loan-backed and Structured Securities, particularly with regards to collateralized fund obligations (CFOs) and similar structures that reflect underlying equity interests but are issued in the form of bonds / debt instruments. In response to initial comments received, the Working Group conducted a conference call on January 8, 2020 and directed an issue paper to review and revise and SSAP No. 43R. In accordance with the direction from the Working Group on January 8, 2020:

1. This issue paper will consider dividing the SSAP No. 43R guidance between items considered “asset backed securities” under the Code of Federal Regulations (CFR) and items that do not meet this definition.

2. The issue paper will review differing investments that do not fit the ABS CFR definition and consider the appropriate accounting and reporting guidance.

3. This issue paper will propose to remove from the scope of SSAP No. 43R investments in the form of a debt instrument where the investment provides that the amount of principal or interest to be returned to the holder is calculated solely with reference of the S&P 500 Index (or other market indicator, whether public or proprietary).
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4. This issue paper will consider the inclusion of guidance, investment reporting provisions, and disclosures to clearly identify and assess “insurer sponsored securitizations.” These disclosures will require disclosure of the conditions in SSAP No. 103R, paragraph 8 and how an insurer sponsor concluded that the conditions were met to attain “sale” accounting treatment upon securitization.

5. This issue paper will review and consider revisions to explicitly reference equipment trust certificates, credit tenant loans and lease-backed securities. This review will coordinate work with the SVO staff on the *Purpose and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) provisions and discussions the SVO is having with industry representatives.

In addition to the direction for the issue paper, the Working Group directed NAIC staff to work with industry in discussing concepts and items for discussion during the interim and in developing the issue paper.

*Recommendation:*
NAIC staff has been working on an issue paper to review and substantively revise SSAP No. 43R. Since the January 2020 conference call, NAIC staff has had many conversations with industry representatives as well as investment providers to discuss differing structures that may have been captured in scope of SSAP No. 43R. For this National Meeting, NAIC staff has provided a preliminary issue paper (discussion document) for initial assessment. As detailed within the document, the topics are not complete, but the draft intends to provide initial information, key concepts that are being considered and a request for information on issues and questions presented within the document.

Although NAIC staff plans to continue working / expanding the current document, it is recommended that the preliminary draft be exposed to solicit information and comments on the items detailed. (A comment deadline of June 26, 2020, has been proposed for this item.)

**ANY OTHER MATTERS**

a. **Reference Rate Reform - LIBOR** – (Jim)
NAIC staff is actively monitoring the FASB discussion on “reference rate reform” (e.g., references to LIBOR in hedging instruments and other financial instruments). The issuance of the ASU is anticipated in early March of 2020. Once issued, NAIC staff plan to promptly review and will likely request an interim exposure of the agenda item.

b. **Ref #2016-20: Credit Losses** – (Jim)
The Working Group has had several discussions / exposures regarding *ASU 2016-13: Credit Losses.* As discussed during the 2019 Fall National Meeting, discussion on this ASU is deferred. No significant consideration has occurred since deferral.

NAIC staff continues to monitor the Financial Accounting Standards Board (FASB) discussions involving this topic. On October 18, 2019, the FASB board voted unanimously to delay implementation of the Credit Loss accounting standard until 2023. While large SEC filers are required to follow CECL in 2020, small SEC reporting companies, financial institutions and other public business entities are granted a reprieve until 2023.

c. **Risk Corridors - Supreme Court** – (Robin)
On December 10, 2019, the Supreme Court of the United States heard oral argument over whether insurers are entitled to more than $12 billion in unpaid Affordable Care Act (ACA) risk corridor payments from 2014 to 2016. The lawsuit, *Maine Community Health Options v. United States,* stems from three consolidated cases, brought by four insurers: Maine Community Health Options, Moda Health Plan, Blue Cross and Blue Shield of North Carolina, and Land of Lincoln Mutual Health Insurance Company. A decision, which will have implications beyond the risk corridors program, is expected by summer 2020. NAIC staff is monitoring this topic and will prepare agenda items if needed based on the Supreme court outcome.
NAIC Staff has held preliminary discussions with the federal counterparts at Department of Health and Human Services (HHS) and indicated the willingness to coordinate on any subsequent accounting and other issues that may arise.

**Background:** The program is addressed in SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act. When the government portion of the risk corridors premium was not funded by Congress, for 2014 payment, the Working Group issued INT 15-01: ACA Risk Corridors Collectability to address impairment and other questions. This interpretation addresses the unpaid 2014 program amounts and non-admits 2014 amounts in excess of proration. For the 2015 and 2016 benefit years estimated in accordance with SSAP No. 107, paragraphs 59.b. and 59.e. are nonadmitted 1) until such time that the prior benefit year is paid in full and 2) until additional proration amounts are confirmed by HHS or other information of a sufficient nature supports that collectability is probable and reasonable.

d. **Referrals – (Jim) – Attachment M**
The Working Group received four referrals from the Valuation of Securities (E) Task Force. While each referral is in the attachment, below is a list of the titles of each referral and any associated SAPWG action.

1. **Referral – Retitling of the NAIC Money Market Mutual Fund List/ Discontinuance of the NAIC Bond Fund List.**  
   SAPWG Response – New agenda item (Ref. 2020-01)

2. **Referral – Including Ground Lease Financing Transactions in scope of SSAP No. 43R—Loan-Backed and Structured.**  
   SAPWG Response – No actions were deemed necessary.

3. **Referral – Removal of the multi-step financial modeling instructions for RMBS/CMBS securities.**  
   SAPWG Response – Related agenda item was previously exposed for comment. (Ref. 2019-41)

4. **Referral – Updated to interim instructions for Mortgage Reference Securities.**  
   SAPWG Response – No actions were deemed necessary.

e. **Process Update for SCA Filing Reviews – (Fatima)**
NAIC staff have proposed a process update to the SCA review process, thereby eliminating manual portions of the process, which will save NAIC staff a substantial amount of time. With this proposal, NAIC staff will still provide regulators SCA filing information on a monthly basis, but insurance company filers will be able to gather this information from the SCA filing screen themselves.

f. **Review of GAAP Exposures – Attachment N - (Jim)**
The attachment details the items currently exposed by FASB. NAIC staff recommends reviewing the issued ASUs under the standard SAP Maintenance process.

*Industry is invited to provide additional comments on FASB projects and developments.*

g. **Health Test Update Notice – (Julie)**
The Health RBC Working Group is considering a new health test for determining whether an entity would be more appropriately represented on the Health or Life, Accident and Health blank. Regulators and industry are encouraged to monitor that exposure and discussion at that Working Group.
Comment Deadlines:
The following agenda items have a **May 1, 2020 comment deadline**. (This listing includes items with blanks proposals, the editorial revisions and items that are proposed to be rejected for statutory accounting.)

Items with Corresponding Blanks Revisions:
- 2019-20: Rolling Short-Term Investments
- 2019-36: Expand TPA and MGA disclosures (if exposed)
- 2019-47: VM-21 Grading (if exposed)
- 2020-01: Update / Remove References to SVO Listings
- 2020-07: Changes to the Summary Investment Schedule

Editorial / Proposed to be Rejected
- 2020-06EP: Editorial Update
- 2020-08: ASU 2016-20, Technical Corrections & Improvements - Topic 606
- 2020-09: ASU 2018-18, Collaborative Arrangements
- 2020-10: ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, 605 and 606
- 2020-11: ASU 2020-02, Amendments to SEC Paragraphs in Credit Losses and Leases

All remaining agenda items have a **May 29, 2020 comment deadline** except for the SSAP No. 43R Issue Paper (Ref #2019-21). Although feedback on the SSAP No. 43R is welcome throughout the exposure process, all comments on the issue paper are requested by June 26, 2020.
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