NAIC NATIONAL MEETING SPRING 2022

Date: 3/22/22

2022 Spring National Meeting
Kansas City, Missouri

STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP
Monday, April 4, 2022
9:45 a.m. – 12:00 p.m.
2501C—Convention Center—Level 2

OVERVIEW AGENDA

HEARING AGENDA

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1. SAPWG Hearing – Adoption of Minutes—Dale Bruggeman (OH)	1	1-3
2. SAPWG Hearing – Review and Adoption of Non-Contested Positions —Dale Bruggeman (OH)		
• Ref #2021-24: Cryptocurrency General Interrogatory	1	4
• Ref #2021-28: ASU 2021-03, Intangibles - Goodwill and Other	2	5
• Ref #2021-29: ASU 2021-05, Variable Lease Payments	3	6
• Ref #2021-30: ASU 2021-06, Amendments to SEC Paragraphs	3	7
3. SAPWG Hearing – Review of Comments on Exposed Items—Expecting Minimal Discussion —Dale Bruggeman (OH)		
• Ref #2021-23: SSAP No. 43R – Financial Modeling – Updated Guidance	4	8
• Ref #2021-26EP: Editorial Updates (Substantive vs. Nonsubstantive)	6	9
• Ref #2021-27: ASU 2021-04, Issuer's Accounting for Certain Modifications	7	10
4. SAPWG Hearing – Review of Comments on Exposed Items—Dale Bruggeman (OH)		
• Ref #2019-21: SSAP No. 43R – Proposed Bond Definition (Reporting Options)	8	11
• Ref #2021-20: Effective Derivatives – ASU 2017-12	12	12
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• Ref #2021-22: Schedule D-6-1, Supplemental Reporting	21	14
• Ref #2021-25: Leasehold Improvements After Lease Termination	23	15
Comment Letters		16

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MEETING AGENDA

	Meeting Page Number	Attachment
5. SAPWG Meeting – Maintenance Agenda – Pending List—*Dale Bruggeman (OH)*		
• Ref #2022-01: Conceptual Framework – Updates	1	A-C
• Ref #2022-02: SSAP No. 48 – Alternative Valuation of Minority Ownership Interests	3	D
• Ref #2022-03: Premium Adjustments Allocated to Jurisdictions	4	E
• Ref #2022-04: ASU 2021-10, Government Assistance	5	F
• Ref #2022-05: ASU 2021-09, Leases, Discount Rates for Lessees	6	G
• Ref #2022-06: ASU 2021-07, Compensation – Stock Compensation	6	H
• Ref #2022-07: ASU 2021-08, Business Combinations	7	I
• Ref #2022-08: INT 22-01T: Freddie Mac When-Issued K-Deal (WI Trust) Certificates	8	J & K
6. SAPWG Meeting – Any Other Matters Brought Before the Working Group —*Dale Bruggeman (OH)*		
• Review of U.S. GAAP Exposures	9	L
• Working Group referral to CASTF - Update	9	-

- **Comment Deadline for Ref #2022-03 & #2022-08 – Friday, May 6**
- **Comment Deadline for all other items – Friday, June 3**

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Statutory Accounting Principles (E) Working Group
Hearing Agenda
April 4, 2022
9:45 a.m. – Noon (Central)

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver	Michigan
Carrie Mears, Co-Vice Chair	Iowa	Doug Bartlett	New Hampshire
Sheila Travis	Alabama	Bob Kasinow	New York
Kim Hudson	California	Kimberly Rankin/Melissa Greiner	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/David Smith	Virginia
Eric Moser	Illinois	Amy Malm/ Elena Vetrina	Wisconsin
Stewart Guerin/Melissa Gibson	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jim Pinegar, Jake Stultz, Jason Farr

Note: This meeting will be recorded for subsequent use.

REVIEW AND ADOPTION OF MINUTES

1. Fall National Meeting **(Attachment 1)**
2. January 27, 2022 **(Attachment 2)**
3. March 2, 2022 **(Attachment 3)**

The Statutory Accounting Principles (E) Working Group met in regulator-to-regulator sessions on February 28 and March 31, 2022. These regulator sessions were pursuant to the NAIC Open Meetings Policy paragraph 3 (discussion of specific companies, entities or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance of the *Accounting Practices and Procedures Manual*). No actions were taken during these meetings. The discussion during the Feb. 28 session previewed the March 2 agenda item regarding the bond project. The discussion during the March 31 session previewed the Spring National Meeting agendas and discussed other items with NAIC staff pursuant to the NAIC open meeting policy.

REVIEW AND ADOPTION of NON-CONTESTED POSITIONS

The Working Group may individually discuss the following items, or may consider adoption in a single motion:

1. Ref #2021-24: Cryptocurrency General Interrogatory
2. Ref #2021-28: ASU 2021-03, Intangibles – Goodwill and Other
3. Ref #2021-29: ASU 2021-05, Variable Lease Payments
4. Ref #2021-30: ASU 2021-06, Amendments to SEC Paragraphs

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-24 Blanks (Jake)	**Cryptocurrency General Interrogatory**	**4 - Agenda Item**	**No Comments**	**IP – 13**

Summary:
On December 11, the Working Group exposed this agenda item to propose a new general interrogatory within the annual reporting blanks, specific to the use or acceptance of cryptocurrencies. Examples of inquiries within the interrogatory include the identification regarding 1) if cryptocurrencies are held by an insurance reporting entity (and if so, which reporting schedules are the cryptocurrencies reported), and 2) if cryptocurrencies are accepted for the payment of premiums. While this agenda item did not propose statutory revisions, it was requested by regulators after the Working Group's May 2021 adoption of *INT 21-01: Accounting for Cryptocurrencies*, which established that directly held cryptocurrencies do not meet the definition of an admitted asset for statutory accounting.

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

Recommended Action:
NAIC staff recommends that the Working Group adopt this agenda item, noting that there are no actual statutory revisions. Rather, adoption will express support for the corresponding Blanks (E) Working Group exposure (2022-01BWG), which includes the new cryptocurrency general interrogatory within the statutory financial statements.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-28 SSAP No. 68 (Jim)	**ASU 2021-03, Intangibles Goodwill and Other**	**5 - Agenda Item**	**No Comment**	**IP – 16**

Summary:
On December 11, the Working Group exposed revisions to *SSAP No. 68—Business Combinations and Goodwill* to reject *ASU 2021-03, Intangibles – Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events* for statutory accounting. ASU 2021-03 provides private companies and not-for-profit entities with an optional accounting alternative for the performance of a goodwill impairment triggering evaluation so that goodwill impairment is only assessed at the end of a reporting period. The allowance provided in this ASU is contrary to *INT 06-07: Definition of Phrase "Other Than Temporary,"* which requires that an impairment be assessed when an impairment indicator is present. Thus, it does not permit the delay of an impairment assessment until a reporting period, nor does it permit assessment differentiation based on entity type (public vs. private or a not-for-profit entity).

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

Recommended Action:
NAIC staff recommends that the Working Group adopt the exposed SAP clarifications to *SSAP No. 68—Business Combinations and Goodwill* to reject *ASU 2021-03, Intangibles – Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events* for statutory accounting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-29 SSAP No. 22R (Jake)	**ASU 2021-05, Variable Lease Payments**	**6 - Agenda Item**	**No Comments**	**IP – 17**

Summary:
On December 11, the Working Group exposed revisions to *SSAP No. 22R—Leases* to reject *ASU 2021-05, Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments* for statutory accounting. ASU 2021-05 applies to lessors with lease contracts that: 1) have variable lease payments that do not depend on a reference index or rate, and/or 2) would have resulted in the lessor being required to recognize a day one selling loss (at lease commencement) if those leases were classified as sales-type or direct financing. The changes to Topic 842 will require a lessor to classify a lease with variable lease payments that do not depend on an index or a rate as an operating lease at lease commencement if classifying the lease as a sales-type lease or a direct financing lease would result in the recognition of a selling loss. However, as SSAP No. 22R requires nearly all leases to be treated as operating leases for statutory accounting, adoption of this guidance would be redundant and unnecessary.

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

Recommended Action:
NAIC staff recommends that the Working Group adopt the exposed SAP clarifications to *SSAP No. 22R—Leases* to reject ASU *2021-05, Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments* for statutory accounting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-30 Appendix D (Jake)	**ASU 2021-06, Amendments to SEC Paragraphs**	**7 - Agenda Item**	**No Comments**	**IP – 17**

Summary:
On December 11, the Working Group exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *2021-06, Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946), Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants* as not applicable to statutory accounting. The amendments in ASU 2021-06 are only applicable for SEC reporting and thus are not relevant for statutory accounting purposes.

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

Recommended Action:
NAIC staff recommends that the Working Group adopt the SAP clarification revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2021-06 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.

1. Ref #2021-23: SSAP No. 43R – Financial Modeling – Updated Guidance
2. Ref #2021-26EP: Editorial Updates (Substantive vs. Nonsubstantive)
3. Ref #2021-27: ASU 2021-04, Issuer's Accounting for Certain Modifications

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-23 SSAP No. 43R (Jim)	**SSAP No. 43R – Financial Modeling – Updated Guidance**	**8 - Agenda Item**	**In Agreement (minor edit proposed)**	**IP – 12**

Summary:
On Oct. 20, 2021, the Valuation of Securities (E) Task Force (VOSTF) adopted updated financial modeling guidance for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual). In response, on December 11, the Working Group exposed two alternatives of SAP clarifications to the summarized financial modeling guidance reflected in *SSAP No. 43R—Loan-backed and Structured Securities.*

Option #1 proposed to retain summarized financial modeling guidance in SSAP No. 43R, which is proposed to be updated for this and any subsequent modeling modifications when subsequently adopted by the VOSTF.

Option #2 proposed to remove the financial modeling guidance from SSAP No. 43R and refer users to the P&P manual – the source governing document for the financial modeling and related designation process.

Recognizing that both options have varying advantages and disadvantages, the Working Group elected to expose both alternatives for consideration.

Interested Parties' Comments:
Interested parties support option one as presented in the exposure. While there are advantages and disadvantages to each option, option 1 provides meaningful holistic view of how these securities are treated in one spot, and without reference to the P&P manual, which we believe will be useful for financial and annual statement preparers. Interested parties note the following grammatical error in paragraph 27 a – third sentence (tracked changed suggestion):

> *"For a modeled non-legacy security, meaning one which closed after December 31, 2012, the NAIC designation and NAIC designation category assigned by the NAIC Securities Valuation Office must be used."*

Recommended Action:
NAIC staff recognize that both options presented have varying advantages and disadvantages, and with the comments from interested parties, have no concern with proceeding with Option 1 and the continued

approach to reflect the summarized guidance in SSAP No. 43R. Accordingly, NAIC staff recommend the Working Group adopt the exposed SAP clarifications, as illustrated below, (to include the minor grammatical correction proposed by interested parties) to *SSAP No. 43R—Loan-backed and Structured Securities.*

Designation Guidance

27. For RMBS/CMBS securities within the scope of this statement, the initial NAIC designation used to determine the carrying value method and the final NAIC designation for reporting purposes is determined using a multi-step process or the NAIC designation assigned by the NAIC Securities Valuation Office. The P&P Manual provides detailed guidance. A general description of the processes is as follows:

a. Financial Modeling: Pursuant to the P&P Manual, the NAIC identifies select securities where financial modeling must be used to determine the NAIC designation. For a modeled legacy security, meaning one which closed prior to January 1, 2013, the NAIC designation is based on financial modeling incorporating~~es~~ the insurers' carrying value. ~~f~~For ~~the security~~ a modeled non-legacy security, meaning one which closed after December 31, 2012, the NAIC designation and NAIC designation category assigned by the NAIC Securities Valuation Office must be used. For those legacy securities that are financially modeled, the insurer must use NAIC CUSIP specific modeled breakpoints provided by the modelers in determining initial and final designation for these identified securities. As specified in the P&P Manual, a modeled legacy security RMBS or CMBS tranche that has no expected loss, as compiled and published by the NAIC Securities Valuation Office, under any of the selected modeling scenarios would be assigned an NAIC 1 designation and NAIC 1.A designation category regardless of the insurer's book/adjusted carrying value. ~~securities where modeling results in zero expected loss in all scenarios and that would be equivalent to an NAIC designation and NAIC designation category of NAIC 1 and NAIC 1.A. respectively, if the filing exemption process in the P&P Manual was applied, are automatically considered to have a final NAIC designation of NAIC 1 and NAIC designation category of NAIC 1.A., regardless of the carrying value.~~ The three-step process for modeled legacy securities is as follows:

i. Step 1: Determine Initial Designation – The current amortized cost (divided by remaining par amount) of a loan-backed or structured security is compared to the modeled breakpoint values assigned to each~~the six (6)~~ NAIC designations and NAIC designation category for each CUSIP to establish the initial NAIC designation.

ii. Step 2: Determine Carrying Value Method – The carrying value method, either the amortized cost method or the lower of amortized cost or fair value method, is then determined as described in paragraph 26 based upon the initial NAIC designation from Step 1.

iii. Step 3: Determine Final Designation – The final NAIC designation is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 27.a.ii.) to the NAIC CUSIP specific modeled breakpoint values assigned to the ~~six (6)~~ NAIC designations and NAIC designation category for each CUSIP or~~. The final designation~~ is mapped to an NAIC designation category, according to the instructions in the P&P Manual. This final NAIC designation shall be applicable for statutory accounting and reporting purposes and the NAIC designation category will be used for investment schedule reporting and establishing RBC and AVR charges. The final NAIC designation is not used for establishing the appropriate carrying value method in Step 2 (paragraph 27.a.ii.).

All Other Loan-Backed and Structured Securities: For securities not subject to paragraph 27.a. (financial modeling) follow the established designation procedures according to the

appropriate section of the P&P Manual. The NAIC designation shall be applicable for statutory accounting and reporting purposes (including determining the carrying value method and establishing the AVR charges). The carrying value method is established as described in paragraph 26.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-26EP Various (Jim)	**Editorial Updates (Substantive vs. Nonsubstantive)**	**9 - Agenda Item**	**Comments Received**	**IP – 15**

Summary:
In response to a Aug. 14 referral from the Financial Condition (E) Committee, on December 11, the Working Group exposed SAP clarifying edits to 1) the Preamble, 2) Volume I and II's Table of Contents (How to use the Manual) and the Summary of Changes, and 3) Appendix F regarding the terminology references of "**substantive**" and "**nonsubstantive**," which have historically been used to describe statutory accounting revisions being considered by the Working Group to the AP&P Manual. This agenda item is the second of two agenda items related to the term and phraseology changes of substantive and nonsubstantive. The agenda item, *2021-14: SAP Terminology*, which was adopted by the Working Group in Dec. 2021, addressed terminology/phraseology changes in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles* (Appendix F). This current editorial agenda item 2021-26EP identifies all remaining uses of the terms in the AP&P manual for change consideration.

NAIC staff note that this current editorial agenda item did not amend the terms or phraseology used in previous adopted SSAPs, issue papers, or other historical documents. Accordingly, the new use of the terms/phrases "new SSAP" or "new SAP concept" (for items previously referred to as substantive revisions) and "SAP clarifications" (for items previously referred to as nonsubstantive revisions) will be used on a going forward basis for all items discussed or issued after Jan. 1, 2022.

Interested Parties' Comments:
Interested parties agree that the distinction between substantive (proposed to change to "development of new SSAPs or New SAP Concepts in an Existing SSAPs") and non-substantive (proposed to change to "Development of SAP Clarifications") can be confusing and that there would be more clarity in the development process if the distinction were eliminated.

Instead, we recommend that all new standards be handled similarly but that the effective date for each new standard be determined by evaluating the complexity of implementation (e.g., the extent that systems or process changes are required) and the availability of data to insurers to implement the new standard. This determination would be made as guidance is completed and with feedback from industry as to the time needed to adopt proposed reporting and/or disclosure.

Recommended Action:
NAIC staff recommends that the Working Group adopt the exposed editorial revisions to 1) the Preamble, 2) Volume I and II's Table of Contents (How to use the Manual) and the Summary of Changes, and 3) Appendix F. This action completes the implementation of the Working Group's adoption SAP clarifications detailed in agenda item, *2021-14: SAP Terminology*.

The combination of the prior agenda item and this editorial item and meets the intent of the Financial Condition (E) Committee referral to clarify the terms "substantive" and "nonsubstantive" to prevent future misrepresentations or assessment by others. That referral specifically noted that the Committee was not proposing that the Working Group

reassess the classification criteria, and the suggestion from the interested parties' comment letter goes beyond Committee's requested intent. (For clarification purposes, the revisions to the Policy Statement reflecting this new terminology was adopted by the Working Group during the Fall National Meeting. This current agenda item only enacts editorial updates to reflect the previously adopted terminology changes. If these editorial revisions are not adopted, there would be a disconnect between the Policy Statement and the terminology reflected in other Manual sections.)

Although it is recommended that the Working Group proceed with adopting the revised terms consistent with the Financial Condition (E) Committee referral, if industry continues to support consideration of a revised process, an alternative approach could be sponsored in a separate agenda item. NAIC staff recognizes that under the current approach nonsubstantive revisions are generally effective upon adoption, but the current process permits the Working Group to establish effective dates that factor in various assessments. The Working Group often considers industry comments when determining an effective date, even if the change is considered a SAP clarification (previously referred to as a nonsubstantive change).

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-27 SSAP No. 72 (Jake)	**ASU 2021-04, Issuer's Accounting for Certain Modifications**	**10 - Agenda Item**	**No Comments (minor proposed modification)**	**IP – 16**

Summary:
On December 11, the Working Group exposed revisions to *SSAP No. 72—Surplus and Quasi-Reorganizations* to reject *Accounting Standard Update* (ASU) *2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)—Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options* for statutory accounting. ASU 2021-04 directs that if the modification/exchange of a share-based payment is related to a debt instrument or line-of-credit, the differences in fair value before and after the modification may be capitalized in accordance with U.S. GAAP debt issuance guidance – a concept disallowed per *SSAP No. 15—Debt and Holding Company Obligations*.

However, ASU 2021-04 also directs that when a freestanding equity-classified written call option is modified, or exchanged, and the instrument remains classified as equity after the modification/exchange, the differences in fair value before and after the modification is to be accounted for as an adjustment to equity. While the agenda item proposes to reject ASU 2021-04, it did propose to incorporate certain guidance regarding accounting for the changes in fair value in exchanges of free-standing equity-classified written call options into SSAP No. 72.

Interested Parties' Comments:
Interested parties have no comment on the approach taken in the exposed revisions but recommend that the revisions be expanded to provide more detail to clarify what guidance from GAAP is adopted and what is not (similar to the description generally provided in an SSAP).

Recommended Action:
NAIC staff recommends that the Working Group adopt the exposed SAP clarifications to *SSAP No. 72—Surplus and Quasi-Reorganizations* to reject ASU 2021-04 for statutory accounting while incorporating guidance that modifications of terms, conditions or exchanges of free-standing equity-classified written call options shall be treated as an exchange. Additionally, NAIC staff have added additional language, as was

suggested by the interested parties, to clarify what guidance is being adopted from this ASU (highlighted in gray below).

> 29. This statement also rejects *Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins*, "Chapter 1, Prior Opinions," paragraph 12 of APB 10, and *FASB Technical Bulletin No. 85-6, Accounting for a Purchase of Treasury Shares at a Price Significantly in Excess of the Current Market Price of the Shares and the Income Statement Classification of Costs Incurred in Defending against a Takeover Attempt* and *Accounting Standard Update (ASU) 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)—Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*, while incorporating guidance that clarifies that an entity shall treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option as an exchange of the original instrument for a new instrument.

REVIEW of COMMENTS on EXPOSED ITEMS

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

1. Ref #2019-21: SSAP No. 43R - Proposed Bond Definition (Reporting Options)
2. Ref #2021-20: Effective Derivatives – ASU 2017-12
3. Ref #2021-21: Related Party Reporting
4. Ref #2021-22: Schedule D-6-1, Supplemental Reporting
5. Ref #2021-25: Leasehold Improvements After Lease Termination

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2019-21 SSAP No. 26R & 43R (Julie)	**Proposed Bond Definition (Reporting Options)**	**11 - Agenda Item**	**Comments Received**	**IP – 1**

Summary:
During the 2021 Fall National Meeting, the Working Group exposed two elements related to the principles-based bond definition.

1. Definition and Issue Paper - The first item pertained to the change of terminology from a "sufficient credit enhancement" to a "substantive credit enhancement." As detailed in the interested parties' comment letter, the interested parties were supportive of those refinements. On March 2, 2022, the Working Group exposed an updated version of the principles-based bond proposal and a draft issue paper in which the change in terminology was reflected and discussed. **The comment deadline for those exposed documents is May 6, 2022**.

2. Reporting - The second item exposed during the Fall National Meeting was a discussion document on reporting options. As detailed within that exposure, NAIC staff anticipates significant reporting changes to provide more granularity of investments on Schedule D-1: Long-Term Bonds as a result of the bond project. Potential changes were exposed with a request for comments. The 2022 Spring National Meeting hearing will receive the comments from interested parties in response to this reporting options exposure.

Interested Parties' Comments:
Interested parties also offer the following comments on the various possible reporting options for Schedule D-1.

1. **Reporting Lines:**

With the principles-based bond definition, it is recommended that more granular reporting lines be established to capture investments in scope of SSAP No. 26R and SSAP No. 43R. From preliminary assessments, the current general categories are not used for analytical assessments / reports except for U.S. Govt – Full Faith and Credit. As such, this document proposes to replace the current general categories with the inclusion of more useful reporting lines based on the type of investment.

Exposure Request Detail provided on pages 2-5:

1. Information is requested on the potential removal of the general categories and whether the elimination would impact any tools or analyses currently performed.

- Interested parties have no concerns currently with the proposed removal of the general categories.

2. Information is requested on the proposed reporting lines and whether additional categories would be beneficial. (Note – The proposal suggests dedicated reporting lines for certain securities that are now identified by codes. Comments on this approach are requested.)

- Interested parties note that one of the challenges with the current Schedule D reporting categories and/or columns is ambiguity which leads to inconsistent reporting among companies. Interested parties recommends working together to ensure the instructions are clear and unambiguous to help prevent this problem with the new reporting schedules. This will benefit both companies and regulators.

- Interested parties would like a better understanding of the unaffiliated/affiliated split of certain rows in the proposal; for example, are the rows not labelled with 'Affiliated' implied to be 'Unaffiliated'? Or are the affiliated rows a subset of the former? Have you considered an alternative such as removing the lines identifying 'Affiliated' investments and utilizing a column to identify them instead? Blanks interested parties are suggesting that an Affiliated or Related Party indicator be utilized in a column for the investment schedules in the Blanks exposure 2021-22BWG (Related Party Reporting).

- Since investments in GNMA are RBC exempt, we recommend that additional lines be added to the ABS section to accommodate these for ease of identification (e.g., US Government Residential Mortgage-Backed Securities; US Government Commercial Mortgage-Backed Securities).

- Consider adding a new category in Issuer Credit Obligation for investments in Surplus Notes/Surplus Debentures which are currently reported on Schedule BA.

2. **New Sub-Schedule D-1**:

The bond project is currently proposing a new sub-schedule that details bond investments that have certain characteristics (e.g., ABS backed by financial assets that are not self-liquidating and ABS backed by cash-generating non-financial assets not captured within the practical expedient.)

Exposure Request:

1. Information is requested on how investments shall be categorized on this schedule.

- Interested parties believe that the proposed 'sub-schedule' for Schedule D – Part 1 could be confusing, and the proposed data could be readily incorporated into electronic-only columns for the respective categories in the 'Other Asset-Backed Securities' section.

- Clear instructions for each category under Other ABS will be extremely beneficial.

2. Information is requested on additional information / columns desired for these structures. Initial ideas that have been proposed include:
   a. Balloon payment as % of principal at acquisition
   b. Current loan-to-value
   c. PIK – Information on whether payment of interest is deferrable
   d. Amount of PIK interest to date
   e. Expected payoff date determined at acquisition
   f. Expected payoff date as of the financial statement date.

- Currently, interested parties would support the proposed data elements for the 'Other Asset-Backed Securities' categories being reported in columns instead of in a 'sub-schedule.' As changes to SSAP No. 26R and SSAP No. 43R are finalized for this project and further evaluation of these investments is done, modifications to the list may be warranted.

- Interested Parties note that some of this data (e.g., Expected payoff date determined at acquisition) may not be readily available upon transition because it assumes a forward-looking analysis at a point in time that has already occurred (potentially decades in the past). Would a practical expedient be needed upon adoption to populate these types of fields?

3. **Schedule D-1 Information**:

As noted, with the change in reporting lines, it has been proposed a review of the columns and instructions also be considered. The following code columns have been potentially identified.

- Column 3 – Code Column
- Column 5 – Bond Characteristics
- Column 26 – Collateral Type
- Column 34 – Capital Structure Code

Exposure Request– Detail provided on page 6:

1. Information is requested on whether other columns / reporting instructions should be clarified as part of the bond proposal project.

   - Interested parties are requesting additional time to address possible changes to the definitions of the columns indicated in the proposal. As rows are being changed, it could have a direct impact on what might be included in the columns as to minimize data redundancy.

2. Comments are welcome on the additional investment elements should be captured and/or whether certain elements are no longer beneficial to be captured. Potential elements related to asset-backed securities include:

   a. Market Validation – This will be a code to identify situations where none of the issuance is owned by unrelated parties.

   - Currently, interested parties don't have an issue with adding this field and we believe the answer could be either yes or no.

- However, interested parties are not sure if the intent is to have the same meaning as the following – *This will be a code to identify situations where all of the issuance is owned by related parties*. If so, interested parties recommends removing the double negatives to be less confusing. If not, interested parties may not fully appreciate what is trying to be captured.

b. Participation in residual tranche (Y/N)

- Interested parties aren't sure how to respond to this question. Should the insurer respond Yes if it currently owns a residual tranche of the same securitization (e.g., residual issued from the same vehicle that issued the bond it invested in) or if they have ever owned a participation in the residual tranche?

Recommended Action:
NAIC staff greatly appreciates the initial feedback from industry with regards to the reporting options discussion document. For this 2022 Spring National Meeting, it is recommended that the Working Group direct NAIC Staff to proceed with developing a more robust illustration of the proposed reporting proposal with a goal to expose at the Working Group's May conference call. In developing the document for exposure, NAIC staff should continue to work with interested parties, particularly in developing category descriptions and in understanding the provided comments.

NAIC staff highlights that certain aspects from the interested parties' comments may not be initially supported by regulators. As such, unless the Working Group was to direct otherwise, NAIC staff recommends proceeding with drafting an exposure document that reflects the following. Subsequent consideration can continue to occur if a different approach should be considered.

1. Surplus Notes – Surplus notes are reported on dedicated reporting lines on Schedule BA and can be reported with or without a CRP rating. (The NAIC SVO does not review and provide NAIC designations on Surplus Notes.) The measurement method for a surplus note is determined from *SSAP No. 41R —Surplus Notes* and is impacted based on whether surplus note is rated by a CRP with an equivalent NAIC 1 or 2 designation. As detailed in SSAP No. 41R, surplus notes have characteristics of debt and equity, and payments from insurers on issued surplus notes are under the strict control of the issuer's domiciliary commissioner. Surplus notes are required to be subordinate to policyholders, claimant and beneficiary claims, and all other classes of creditors other than other surplus note holders. Payment of interest and principal on surplus notes can only occur with approval by the issuing insurer's domiciliary state commissioner. Due to the specific nature of surplus notes, the reporting on Schedule BA was a deliberate decision and goes back prior to the Codification of statutory accounting principles. (For example, in the original *Issue Paper No. 41—Surplus Notes*, adopted in 1998, there is reference to prior guidance that indicates surplus notes being captured on Schedule BA as an other invested asset.) In addition to moving an asset that is akin to an equity item, as there is no assurance that interest or principal payments would occur, if moved to Schedule D-1, it would seemingly require all surplus notes to obtain CRP designations to determine measurement and applicable RBC charges. As such, NAIC staff does not recommend proposing edits as part of the bond proposal project to move surplus notes to Schedule D-1.

2. Sub-Schedule D-1 – Based on initial discussion with regulators involved in the bond proposal project, and the intent to separately identify specific ABS that qualify as bonds (namely, those backed by financial assets that do not self-liquidate (e.g., equity backed) and those that have exceed the practical expedient for determining meaningful cash flows), NAIC staff recommends proceeding with developing guidance for a sub-schedule D-1. NAIC staff believes that the presentation of the schedules will help address potential confusion from the theoretical concept. NAIC staff highlights that expanding the electronic-only columns to identify key characteristics of

these investments would not provide the transparency that is desired for these investments as part of the bond project.

3. Affiliate Reporting Lines – The definition of an affiliate is captured in the Model, SSAP No. 25 and SSAP No. 97. Although the definition is consistently referenced, it seems that there is inconsistency in practice and differing interpretations on the reporting of investments with entities that qualify as affiliates, and whether these investments shall always be captured within the affiliated reporting line. Pursuant to comments from interested parties, actual credit exposure should be present to report an investment on the affiliate reporting line. However, the regulator viewpoint is that all affiliated transactions shall be reported to the regulator pursuant to SSAP No. 25 and the Insurance Holding Company System Model #440 and its related Regulation 450 with Reporting Forms and Instructions (#450), (which includes Form D filings). By reporting all investments acquired from affiliates on the affiliated reporting line, the regulator has necessary information regarding these investments and the affiliate interactions.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-20 SSAP No. 86 (Julie)	**Effective Derivatives – ASU 2017-12**	**12 - Agenda Item**	**Comments Received**	**IP – 4**

Summary:
During the 2021 Fall National Meeting, the Working Group exposed an agenda item that summarized key changes detailed in *Accounting Standard Update* (*ASU) 2017-12: Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* to reduce complexity and align hedge accounting with risk management activities. In addition to summarizing key U.S. GAAP changes, the agenda item identified various elements to consider as a result of the different accounting approaches between U.S. GAAP and SAP. Despite these variations, the agenda item noted that the determination of an effective hedge should be consistent between U.S. GAAP and SAP. With the exposure of the agenda item, NAIC staff was directed to work with industry and regulators in assessing and developing revisions to facilitate effective hedge assessments between SAP and U.S. GAAP. This agenda item noted that the revisions will likely result in changes from the original intent of SSAP No. 86, therefore would be considered a change in SAP concepts and should be accompanied by the development of an issue paper.

Since the exposure of the agenda item, NAIC staff has met twice with key industry reps focusing on derivatives. These meetings have focused on education of excluded components pertaining to foreign currency hedge transactions, focusing on forward spot rates and cross-currency basis spreads. These meetings have provided detail on the reporting differences between U.S. GAAP and SAP, and the impact of reporting the excluded component at fair value under SAP, even though the derivative transaction qualifies as an effective hedge.
Interested Parties' Comments:
ASU 2017-12 provided targeted improvements to the existing GAAP hedge accounting framework that helps reduce some of the cost and complexity of applying hedge accounting and allows for additional hedging strategies that better align with an entity's risk management practices. Substantive changes that weren't initially adopted in SSAP No. 86 are addressing cross-currency basis spread as an excluded component, partial-term hedging for fair value hedges, ability to use the benchmark interest rate component of contractual cash flows to calculate the change in fair value of the hedged item in fair value hedges, last-of-layer/portfolio layer method for fair value hedges, and hedges of interest rate risk when the hedged item can be settled before scheduled maturity. Additionally, we are proposing clarifications to existing SSAP No. 86 for the accounting of forward points as an excluded component for currency forwards. Please refer to the attached appendix for proposed mark-ups to SSAP86 for these changes.

Summary of changes proposed to SSAP No. 86:

1. **Clarifications for the accounting of forward points as an excluded component for FX forwards –** Currently there is implicit inconsistency between paragraph 40 and Exhibit C for forward points as excluded components; this results in accounting that doesn't align with companies' risk management strategies. Application of the guidance in Paragraph 40 for a FX forward in an effective hedge relationship with an excluded component results in an impact to Surplus that is the same as if hedge accounting had not been applied. We propose resolving this matter by explicitly allowing the guidance in Exhibit C to be applied regardless of whether a component of the derivative is excluded from the assessment of effectiveness. When forward points are an excluded component from the assessment of hedge effectiveness, the forward points would be amortized into income. This would allow for the execution of FX forward effective hedge relationships, which interested parties would consider sound risk management strategies, to receive an accounting treatment that is more favorable relative to hedge accounting not being applied.

2. **Adding cross-currency basis spread as an excluded component –** We propose adding cross-currency basis spread as an excluded component. Doing so better aligns hedge accounting with companies' risk management strategies, aligns the accounting for FX swaps where the cross-currency basis spread is an excluded component with the proposed accounting for FX forwards where forward points are an excluded component, and brings consistency between U.S. GAAP and Statutory accounting. Changes in the fair value of cross-currency basis spread have historically resulted in a less effective hedge or ineffective hedge because there is no corresponding offset in the hedged item. Excluding the cross-currency basis spread from the assessment of hedge effectiveness is beneficial for fair value hedges of foreign-denominated assets and liabilities. When the value of the cross-currency basis spread is excluded from the assessment of effectiveness, based on proposed changes to Paragraph 40 and Exhibit C, the excluded component would be held at amortized cost. With FX forwards, forward points as excluded components need to be amortized to be recognized in income. For FX swaps, the value of the cross-currency basis spread is embedded in the coupon payments of the swap, so the value is recorded in income each period through the typical swap accrual process.

3. **Adding ability to designate partial-term for fair value hedges –** We propose adding partial-term hedging for fair value hedges because it better aligns hedge accounting with companies' risk management strategies for managing interest rate risk and brings consistency between U.S. GAAP and Statutory accounting. Currently SSAP No. 86 requires that the full contractual cash flows of the entire hedged item must be used to calculate the change in the hedged item's fair value attributed to the benchmark interest rate. With partial term an entity may designate only certain consecutive interest payments of a financial instrument as the hedged item and assume that the principal payment occurs at the end of the hedge term. Partial-term hedging allows entities to calculate the change in the fair value of the hedged item using an assumed term that begins when the first hedged cash flow begins to accrue and ends when the last hedged cash flow is due and payable. When using full contractual cash flows to calculate the change in the hedged item's fair value attributed to changes in the benchmark rate, it can be difficult to achieve a highly effective hedge because the hedging instrument and the hedged item would react differently to changes in interest rates since the principal repayment occurs on different dates.

4. **Adding alternative to use the benchmark interest rate component of contractual cash flows to calculate the change in the fair value of the hedged item in fair value hedges –** We propose adding an alternative to use the benchmark interest rate component of contractual cash flows to calculate the change in the fair value of the hedged item in fair value hedges because it better aligns hedge accounting with companies' risk management strategies for managing interest rate risk and brings consistency between U.S. GAAP and statutory accounting. Currently SSAP No. 86 requires that the full contractual cash flows of the entire hedged item be used to calculate the change in the hedged item's fair value attributed to the benchmark interest rate. Calculating the change in fair value using only the benchmark rate component

instead of the entire coupon may better reflect how an entity manages interest rate risk. In addition, it will provide a greater degree of offset between the changes in the fair values of the hedging instrument and the hedged item. Generally, the benchmark rate being hedged and the fixed rate on the hedging swap will match if the swap is "at-market" and executed at the inception of the hedging relationship.

5. **Adding last-of-layer/portfolio layer method for fair value hedges –** We propose adding last-of-layer/portfolio layer method for fair value hedges because it better aligns hedge accounting with companies' risk management strategies for managing interest rate risk and brings consistency between U.S. GAAP and statutory accounting. Last-of-layer allows entities to designate as the hedged item the last dollar amount of a closed portfolio of prepayable financial assets, or one or more beneficial interests in a portfolio of pre-payable financial instruments. When using this approach, it is assumed that as prepayments occur, they are first applied to the portion of the closed portfolio that are not part of the designated layer. At inception and on each assessment date, the entity would need to determine that the designated layer is expected to be outstanding until the end of the hedge. This approach simplifies the rigid nature of the similar asset test required for portfolio hedging for fair value hedges by allowing the ability to assess qualitatively instead of quantitatively by combining the partial-term fair value hedge election and the election to measure changes in the hedged item by using the benchmark rate component of the contractual coupon cash flows. This makes achieving hedge accounting for a portfolio of prepayable fixed rate assets easier. The similar asset test requirement for portfolio hedges often makes it difficult, if not impossible, for a group of disparate fixed-rate assets to qualify to be hedged on a portfolio basis. The FASB currently has tentative conclusions for updates to last-of-layer method, so we will need a scope limitation to maintain consistency with GAAP. For example, last-of-layer would only be applicable to closed portfolios of assets, and companies would be prohibited from designating closed portfolios of liabilities.

6. **Adding hedges of interest rate risk when the hedged item can be settled before scheduled maturity –** We propose adding the ability to elect to only consider how changes in the benchmark rate affects the decision to prepay the instrument when it assesses hedge effectiveness and measures the change in the hedged item's value attributable to the hedged risk because it better aligns hedge accounting with companies' risk management strategies and brings consistency between U.S. GAAP and statutory accounting. If an entity makes this election, it does not consider how other factors (e.g. credit risk) might affect the decision to prepay the financial instrument.

Recommended Action:
NAIC staff greatly appreciates the efforts of industry to provide details and walk-throughs of derivative transactions. Although industry provided proposed edits to SSAP No. 86 as part of their comment letter, after a review of SSAP No. 86, NAIC staff believes more-robust edits are warranted. This is predominantly due to existing guidance in Exhibit A and Exhibit B of SSAP No. 86 reflecting outdated, non-authoritative U.S. GAAP guidance. When FAS 133 was initially issued, it was accompanied by statements from the "Derivative Implementation Group" (DIGs). These DIGs were by FASB staff but were not official positions of the FASB. Since the issuance of FAS 133 (and the DIGs), the FASB adopted the Accounting Standards Codification (ASC), and it is considered the authoritative source of U.S. GAAP guidance. With the ASC development, the FASB incorporated FAS 133 – as well as various DIGs – as authoritative guidance. The ASC has been modified since original development (2009) through the issuance of ASUs, including ASU 2017-12. **With the focus on this agenda item, particularly the intent to ensure consistency in hedge effectiveness determination between U.S. GAAP and SAP, NAIC staff recommends that SSAP No. 86 Exhibit A and Exhibit B be completely revised, and that there be additional revisions to SSAP No. 86 to clarify the accounting and reporting guidance of excluded components.** (Ultimately, NAIC staff believes that if incorporating only limited edits that do not reflect the U.S. GAAP guidance, there will be questions and potential subsequent confusion on whether the guidance was intended to converge with U.S. GAAP as it pertains to hedge effectiveness.)

For this National Meeting, NAIC staff recommends the exposure of two documents, which are intended to reflect aspects of a future issue paper as follows:

1. **<u>Assessment of Hedging Effectiveness</u>: This document proposes a new Exhibit A (which will replace both Exhibit A and Exhibit B of SSAP No. 86) that details the current U.S. GAAP guidance in determining hedge effectiveness (Attachment 12.1).** As detailed within the document, although there are several elements from the ASC that are proposed to be pulled into the SSAP exhibit, this document proposes adoption with modification of the overall U.S. GAAP guidance for determining hedge effectiveness even though not all paragraphs are proposed to be captured within the SSAP No. 86 Exhibit A. This adoption is modified as it excludes the U.S. GAAP guidance for the accounting and reporting of the hedging instruments, including the excluded components of those instruments. This exclusion is required as statutory accounting has specific accounting and reporting guidance for hedging instruments that differs from U.S. GAAP.

2. **<u>Measurement of Excluded Components</u>: This document proposes revised guidance in SSAP No. 86 to detail the measurement method required for the different types of excluded components (Attachment 12.2).** As identified by industry, there are current inconsistencies in SSAP No. 86 for excluded components and these edits would eliminate those issues. NAIC staff believes that the proposed accounting and reporting within this document is consistent with the overall recommendations from industry for excluded components pertaining to foreign currency forward points as well as a cross-currency spread basis. However, although the overall measurement treatment from industry is reflected, the proposed edits in this document are more robust than what industry proposed. This is because the proposed revisions will address non-foreign currency excluded components and expands investment schedule reporting and disclosures.

NAIC staff recognizes that these two documents only focus on limited elements from the ASU 2017-12 (excluded components), and requests that the Working Group continue to direct NAIC staff to work with industry on other elements (such as partial term hedging and the last-of-layer (portfolio) method) in the interim. NAIC staff acknowledges that industry has proposed edits to SSAP No. 86 for those elements as well, but NAIC staff would like additional time to evaluate those items in accordance with the statutory accounting reporting of derivatives before recommending exposure of the industry-proposed edits for those topics to SSAP No. 86.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-21 SSAP No. 25 SSAP No. 43R (Julie/Jake)	**Related Party Reporting**	**13 - Agenda Item**	**Comments Received**	**IP – 7**

<u>Summary:</u>
On December 11, the Working Group exposed SAP clarification revisions to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 43R—Loan-backed and Structured Securities* to clarify related party / affiliate guidance as well as new reporting disclosures for investments acquired from a related party, regardless of whether the investment is captured on an "affiliate" reporting line. The agenda item had two broad goals which included:

1. Clarifying the reporting of affiliate transactions within existing reporting lines in the investment schedules. This clarification intends to be consistent with the definition of an "affiliate" pursuant to the *Insurance Holding Company System Regulatory Act* (Model #440), *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

2. To incorporate new reporting requirements for investment transactions with related parties. Pursuant to recent discussions, regulators desire additional information on investment transactions involving related parties, regardless of whether the related party is "affiliated" pursuant to Model #440. To preserve the affiliate definition and reporting categories, these additional proposed reporting elements will be captured outside of the current affiliate reporting requirements.

The agenda item proposed that the identification of such items would occur through a reporting code in the year-end investment schedules and would apply in a variety of circumstances, which include:

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role <u>and for which 50% or more</u> of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and <u>for which less than 50% (including 0%)</u> of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment in which the structure reflects an in-substance related party transaction but does <u>not</u> involve a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

<u>*Interested Parties' Comments:*</u>
The Related Party Exposure has the following two main goals:

1. Clarify the reporting of affiliate transactions within existing reporting lines in the investment schedules. This clarification intends to be consistent with the definition of an "affiliate" pursuant to the *Insurance Holding Company System Regulatory Act* (Model #440), *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated (SCA) Entities*.

2. Incorporate new reporting requirements for investment transactions with related parties. Pursuant to recent discussions, regulators desire additional information on investment transactions involving related parties, regardless of whether the related party is "affiliated" pursuant to Model #440. To preserve the affiliate definition and reporting categories, these additional proposed reporting elements will be captured outside of the current affiliate reporting requirements.

To accomplish these goals, the Related Party Exposure proposes to make changes to SSAP No 25 - Affiliates and Other Related Parties and SSAP No. 43R - Loan-backed and Structured Securities. We understand that one of the goals of the proposal is to identify investments that are originated, managed, sponsored or serviced (referred to as managed by affiliates for the remainder of this letter) by an affiliate or related party of the insurer. Interested parties agree that this information can be useful for the regulators, but we believe that it is critical to differentiate investments where there is direct credit exposure to an affiliate from those investments that are only managed by affiliates with no underlying credit exposure to the affiliate or related parties of the insurer. The affiliate reporting distinction is very important for a number of reasons, including but not limited to the following:

a. ***Rating Agencies –*** Interested parties understand that the rating agencies may apply a higher risk factor to affiliated assets as there is a presumption that anything reported as affiliated has credit risk exposure to an SCA of the insurer.

b. ***NAIC Designations –*** Affiliated debt investments where there is credit exposure to an SCA of the insurer have to be filed with the SVO to obtain an NAIC designation. Affiliated equity investments in SCAs reported on Schedule D also require filing to confirm their reporting value on Schedule D. Debt investments in CLOs/CDOs that are managed by affiliates but that do not have any credit exposure to an affiliate are filing exempt because they are not deemed affiliated.

Our comments to the proposed changes to SSAP No. 25 and SSAP No. 43 are provided below:

1. ***Removal of references to U.S. GAAP guidance from SSAP No. 25*** **-** Interested parties agree with removing the U.S. GAAP reference to FASB Interpretation No. 35 as we agree that the statutory guidance uses a different threshold than US GAAP to determine if significant influence exists over an investee. In addition, the SSAP No. 25 guidance already includes a number of scenarios to rebut the presumption of control, which are similar to the examples provided in the GAAP guidance.

2. ***The Working Group's Proposed changes to SSAP No. 25 to add the following new paragraph:***

> "For entities not controlled by voting interests, such as limited partnerships, trusts and other special purpose entities, control may be held by a general partner, servicer, or by other arrangements. The ability of the reporting entity or its affiliates to direct the management and policies of an entity through such arrangements shall constitute control as defined in paragraph 6. Additionally, a reporting entity or its affiliates may have indirect control of other entities through such arrangements. For example, if a limited partnership were to be controlled by an affiliated general partner, and that limited partnership held greater than 10% of the voting interests of another company, indirect control shall be presumed to exist. If direct or indirect control exists, whether through voting securities, contracts, common management or otherwise, the arrangement is considered affiliated under paragraph 5. Consistent with paragraph 8, a disclaimer of affiliation does not eliminate a "related party" distinction or disclosure requirements for material transactions pursuant to SSAP No. 25."

We understand from conversations with staff that this paragraph is meant to clarify the guidance in paragraph 7 of SSAP No. 25 and paragraph 6 of SSAP No. 97- Investments in Subsidiary, Controlled and Affiliated Entities. That guidance requires that investments in limited partnerships and other similar entities (i.e. investment funds) that are managed by a general partner that is affiliated to the insurer and where the insurer owns more than 10% of the investment fund's equity be reported as affiliated investments.

Interested parties understand that the current SSAP No. 25 and SSAP No. 97 guidance already require equity investments in limited partnerships and similar entities to be reported as affiliated if the insurer owns more than 10% of the equity of the limited partnership and the insurer is affiliated to the general partner or managing member for limited liability company structures. One thing to note is that even if the insurer is affiliated to the general partner, the insurer would usually not have any credit exposure to its affiliates in these structures as the underlying assets of the investment fund are usually held with unrelated parties. For this reason, interested parties note that there is a diversity in practice in the reporting of these investment funds on Schedule BA, with some insurers reporting these investments in the affiliated section of Schedule BA and others reporting these investments as unaffiliated. If the intent is to report these types of equity investments as affiliated when the presumption of control cannot be overcome, this will require some reporting changes by some insurers.

In regard to debt investments in investment funds or securitization vehicles managed by the insurer affiliates or related parties as well as mortgage loans managed by affiliates, we note that most insurers currently

report those investments as unaffiliated on Schedule D, Schedule BA and Schedule B if there is no underlying credit exposure to affiliates of the insurer. Interested parties would like to highlight again that just because the insurer is affiliated with the manager or servicer of an investment vehicle such as a securitization, if the underlying assets in the structure do not have affiliated credit exposure, the investment itself should not be reported as affiliated as that would not be accurate reporting. See further comments on the SSAP No. 43R proposed changes in item No. 4 below.

The new proposed paragraph also includes a look-through requirement of these investment funds to identify instances where the investment fund owns more than 10% of the common stock of its underlying investees. Interested parties have concerns with this look-through review. Doing a look-through of the underlying investments of investment funds managed by affiliates of the insurer could potentially create a very significant operational burden that may have little or no benefit. The reason why there is potentially little benefit to this is because if these investment funds have purchased an equity investment that represents more than 10% but less than 50% of the voting stock of one of their investees, this would almost never give control to the investment fund. For most entities capitalized with common stock (i.e. voting entities), the parties that control are the ones that own more than 50% of the voting shares. If the Working Group feels that this look-through is necessary, interested parties will need time to get this process implemented. Interested parties believe that the earliest this look-through requirement can be implemented is for year-end 2023 as time will be needed to set up a process with all affiliated funds so that the funds provide a listing of underlying equity investments in other entities along with the percentage ownership. In addition, we suggest some wording changes, as shown below in the underlined text to the new paragraph, to link the new paragraph back to the examples in paragraph 7 to incorporate the examples of when the presumption of control can be overcome:

> "For entities not controlled by voting interests, such as limited partnerships, trusts and other special purpose entities, control may be held by a general partner, servicer, or by other arrangements. The ability of the reporting entity or its affiliates to direct the management and policies of an entity through such arrangements shall constitute control as defined in paragraph 6. Additionally, a reporting entity or its affiliates may have indirect control of other entities through such arrangements. For example, if a limited partnership were to be controlled by an affiliated general partner, and that limited partnership held greater than 10% of the voting interests of another company, indirect control shall be presumed to exist <u>unless the presumption of control can be overcome as detailed in paragraph 7</u>. If direct or indirect control exists, whether through voting securities, contracts, common management or otherwise, the arrangement is considered affiliated under paragraph 5. Consistent with paragraph 8, a disclaimer of affiliation does not eliminate a "related party" distinction or disclosure requirements for material transactions pursuant to SSAP No. 25."

Interested parties also ask for clarification regarding what the implications are of identifying an underlying investee of an investment fund as an affiliate. We believe that any other transactions carried out with the indirect affiliate need to be disclosed in the related party footnote, but we are unclear as to the impacts to Schedule Y and any other reporting schedules. The unit of account in this case would be the direct investment in the affiliated investment fund, not the underlying investments of the investment fund. It is not clear to us whether the indirect affiliates would also need to be reported on Schedule Y and/or any other reporting schedules.

3. ***Proposed changes under paragraph 6 (a) of SSAP No. 43R regarding insurers' investments in securitization vehicles where the underlying assets of the securitization predominantly relate to assets with credit exposure to affiliates/related parties of the insurer*** – Interested parties agree that when the insurer has credit exposure to its SCAs, even if there are intermediaries as part of the transaction, such investment should be reported as affiliated in the investment schedules.

4. ***Proposed changes to SSAP No. 43R to clarify that investments managed by affiliates are viewed as affiliated even if the underlying assets in the structure do not have any credit exposure to an affiliate*** - Many insurers own asset management subsidiaries which manage securitization transactions. There is no question that the asset manager itself is an SCA of the insurer and such asset managers are reported on Schedule Y as affiliates of the insurer. However, when any debt tranches purchased from those securitization vehicles do not have any credit exposure to SCAs of the insurer, the debt tranches are not reported in the affiliated section of Schedule D even if the securitization vehicle is managed by an affiliate.

   It is very important to interested parties that this distinction is understood for Schedule D bond investments. Schedule D bond investments should not be reported as affiliated if they do not have credit exposure to SCAs of the insurer.

   We understand from conversations with NAIC staff that this clarification is not intended to change the reporting lines in which investments are currently reported. The expectation is that these investments will now have a new code that will identify these investments as being managed by a related party of the of the insurer but have no credit exposures to related parties.

   Interested parties agree with adding new codes to differentiate investments that are simply managed by a related party (including SCAs) from those that in fact have credit exposure to a related party (including SCAs) of the insurer. See further comments to the proposed codes in item 5 below.

5. ***Proposed annual statement changes to add a new electronic-only column to the investment schedules to identify investments involving related parties*** – Interested Parties have no objection to the proposed new codes to specify the type of relationship with the manager/sponsor/servicer of an investment vehicle. However, we offer the following comments to provide better clarity as to the applicability of the codes:

   a. Most if not all of an insurer's general account investments are managed by an affiliated asset manager. The affiliated asset manager makes decisions as to when to buy and sell a specific investment, including reviewing the investment for potential credit losses. We do not believe that it is the intent of the proposal to flag all investments as affiliated only because an affiliated asset manager makes investment decisions over the investment. Insurers already report their relationship with affiliated asset managers in the related party footnote. We believe that the intent of this proposal is to identify investment vehicles that are managed by related parties (including SCAs) as well as investments with direct exposure to related parties (including SCAs) of the insurer. To that end, we believe the codes would predominantly apply to the following types of investments:

      i. CLOs/CDOs or special purpose entities set up to create a securitization vehicle that are managed by related parties (including SCAs) of the insurer.

      ii. Mutual funds/ETFs and other similar funds where the asset manager is a related party of the insurers (including SCAs of the insurer).

      iii. Limited partnerships, limited liability companies or trusts set up as investment vehicles where the general partner or managing member is a related party of the insurer (including SCAs of the insurer).

      iv. Debt and equity investments in affiliates where there is direct credit risk exposure to a related party (including SCAs of the insurer).

   b. Codes 2, 3 and 4 of the Related Party Exposure refer to "securitizations and other similar investments" which may imply to some that the codes only apply to Schedule D assets since Schedule D is where debt investments in securitizations are reported. If the codes are expected to apply to all investment vehicles, perhaps the wording can be made clearer by saying "securitizations

and other investment vehicles such as mutual funds, limited partnerships and limited liability companies."

Recommended Action:

NAIC staff appreciate the thorough comments received from the interested parties. For the Spring National Meeting, it is recommended that the Working Group expose the agenda item with the suggested revisions that were provided by interested parties. NAIC staff agree that these are minor overall and add value to the proposed guidance. Below are the proposed revisions that were suggested by interested parties, highlighted in grey below.

SSAP No. 25, new paragraph 9:

9. For entities not controlled by voting interests, such as limited partnerships, trusts and other special purpose entities, control may be held by a general partner, servicer, or by other arrangements. The ability of the reporting entity or its affiliates to direct the management and policies of an entity through such arrangements shall constitute control as defined in paragraph 6. Additionally, a reporting entity or its affiliates may have indirect control of other entities through such arrangements. For example, if a limited partnership were to be controlled by an affiliated general partner, and that limited partnership held greater than 10% of the voting interests of another company, indirect control shall be presumed to exist unless the presumption of control can be overcome as detailed in paragraph 7. If direct or indirect control exists, whether through voting securities, contracts, common management or otherwise, the arrangement is considered affiliated under paragraph 5. Consistent with paragraph 8, a disclaimer of affiliation does not eliminate a "related party" distinction or disclosure requirements for material transactions pursuant to SSAP No. 25

Annual Statement Reporting Changes:

Column XX: Investments Involving Related Parties:

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control / affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

NAIC staff noted that the interested parties comment letter expressed concerns with changes to the affiliated and unaffiliated reporting lines in the investment schedules. NAIC staff want to reiterate that this agenda item does not intend to make any changes to what is reported as affiliated or unaffiliated, and we want to take this opportunity to again be clear that the changes proposed in this agenda item are not intended to change reporting lines and this is only intended to add a new column in the current reporting schedules to capture information on related party investments. The definition of an affiliate is captured in the Model, SSAP No. 25 and SSAP No. 97. Although the definition is consistently referenced, it seems that there is inconsistency in practice and differing interpretations on the reporting of investments with entities that qualify as affiliates, and whether these investments shall always be captured within the affiliated reporting line. Pursuant to comments from interested parties, actual credit exposure should be present to report an investment on the affiliate reporting line. However, the regulator viewpoint is that all affiliated transactions shall be reported to the regulator pursuant to SSAP No. 25 and the Insurance Holding Company System Model Regulatory Act (#440) and its related Regulation and with Reporting Forms and Instructions (#450), (which includes Form D filings). By reporting all investments acquired from affiliates on the affiliated reporting line, the regulator has necessary information regarding these investments and the affiliate interactions.

Interested parties also stated in their comment letter that "If the Working Group feels that this look-through is necessary, interested parties will need time to get this process implemented. Interested parties believe that the earliest this look-through requirement can be implemented is for year-end 2023 as time will be needed to set up a process with all affiliated funds so that the funds provide a listing of underlying equity investments in other entities along with the percentage ownership." While NAIC staff are sympathetic to this request to push this disclosure to 2023, the broader issue with related party reporting is part of a larger initiative within the NAIC, and at this time we believe that this must be adopted for 2022 reporting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-22 SSAP No. 97 (Jim)	**Schedule D-6-1, Supplemental Reporting**	**14 - Agenda Item**	**Comments Received**	**IP – 12**

Summary:
On December 11, the Working Group exposed this agenda item for public comment and while it did not propose revisions to statutory accounting, it did result in a proposal being forwarded to the Blanks (E) Working Group to expand (in electronic only columns) reporting in *Schedule D – Part 6 – Section 1: Valuation of Shares of Subsidiary, Controlled or Affiliated Entities* (Schedule D-6-1). Schedule D-6-1 captures investments which are defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*. The proposed expansion in reporting would capture items consistent with current requirements in SSAP No. 97 and include items such as prior year's BACV, nonadmitted amount, sub-2 verified value, and VISION filing number. The addition of these items to the Schedule D-6-1 tables were proposed as they will assist regulators to 1) ensure Sub 1 and Sub 2 filings are being submitted by reporting entities, and 2) identify situations where the NAIC approved value varies significantly from the value reported on Schedule D-6-1.

Interested Parties' Comments:
Interested parties have the following observations regarding this proposal:

- The nature of the NAIC valuation adjustments can be broad and include a range of possibilities. But in looking back to the reductions from the 2020 filings, there are notes for items such as: going concern, lack of audit, audit not provided in English, lack of a U.S. GAAP reconciliation, or other errors, etc. It appears

that the most prevalent, by far, is a reduction to match the equity reflected in the audit.

- The adjustment is not intended to match the approved amount, but to adjust subsequent valuations to reflect the current equity that factors in the noted adjustment / issue by NAIC staff from the filing submission. For example, if an insurer didn't adjust for a surplus note, and staff adjusted their approved year end value to remove the surplus note, the insurer should make sure that a similar adjustment is reflected going forward when reporting the current equity amount.

- In addition, since this is gathering prior year information, we note that regulators will be able to easily identify significant swings in equity values for any particular SCA.

In summary, interested parties recommend that there be a formal process for communicating the adjustment to the state of domicile and a clearly articulated instruction for how the adjustment is to be reported to ensure that the adjustments are communicated to insurers by the state of domicile and that insurers clearly understand how the adjustments are to be reflected.

Recommended Action:
NAIC staff recommends that the Working Group adopt this agenda item, noting that there are no actual statutory revisions. Rather, adoption will express support for the corresponding Blanks (E) Working Group exposure (2022-02BWG), which includes the new electronic only columns in Schedule D-6-1.

In response to comments received from interested parties, NAIC staff refers filers to SSAP No. 97, paragraph 51 which states that if an insurance company has reported a value for the SCA investment on its financial statement blank that differs from the value approved by the NAIC, the insurer is required to adjust the reported value in its next quarterly financial statement blank, unless otherwise directed by the insurer's state of domicile. Financial statement filers are generally required to submit Sub-2 filings by Aug. 31 (SSAP No. 97, paragraph 52) and most filers meet this deadline. For example, a filer may file a 2021 year-end Sub-2 filing on Aug. 31, 2022 – at which time NAIC staff review the submitted information. If a material adjustment is required (e.g., the filer did not reduce the value of the subsidiary for reciprocal ownership), then the filer should consider that adjustment in its valuation assessment during the preparation of its next quarterly financial statement. Depending on the timing of the review, in the example of a Aug. 31 filing, the substance of the adjustment could occur in either the 3rd or 4th quarter filing. However, the filer should consider the nature of the adjustments in the subsequent year Sub-2 filing. While this agenda item had multiple objectives, one goal was to help identify filers who have repeated, identical adjustments year-after-year.

If an adjustment is made, filers are notified in VISION regarding rationale for the change. Please note that VISION is also the location where filers can see the status of any filing (submitted, accepted, reviewed, etc.) and the location where the valuation reports can be printed.

In terms of communications of adjustments with the states of domicile, NAIC staff send monthly updates to the states, in a formalized reporting template, the status of all reviews completed for the month. The template includes identification of the insurance reporting entity, SCA, state of domicile, approved value, approved share value and notations (with explanation) of any differences in approved vs. submitted valuations. NAIC staff submit rationale for any changes, and frequently consult with the states in advance of approving valuations that differ from what is submitted by an insurer, especially in cases where an opinion is required on the materiality of exception items (as NAIC staff are not permitted to opine on materiality per SSAP No. 97, paragraph 50). After submitting the monthly reports to the states, NAIC staff often answer any questions (regarding valuation or other items) for insurance regulators.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-25 SSAP No. 19 SSAP No. 73 (Jake)	**Leasehold Improvements After Lease Termination**	**15 - Agenda Item**	**Comments Received**	**IP – 13**

Summary:
On December 11, the Working Group exposed SAP clarification revisions to *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities* to address questions about the treatment of leasehold improvements in situations where a leased property is purchased by the lessee during the lease term. In these scenarios, it was identified that the reporting entity had acquired the property that was initially subject to a lease; and informed that regardless of the scenario, amortization of leasehold improvements is only permitted over the shorter of the estimated useful life of the improvement or the lease term (as defined in *SSAP No. 22R—Leases*). In a normal lease termination, one where the lessee does not acquire said property, any remaining leasehold improvements at the time of termination shall be immediately expensed. This agenda item was drafted to clarify this guidance to articulate that in any scenario in which a lease terminates early, that all remaining leasehold improvements shall be immediately expensed.

Interested Parties' Comments:
Interested parties agree that, in most cases, unamortized lessee owned leasehold improvements should be immediately expensed if the lease is terminated. However, in the situation where the reporting entity purchases a property that it was previously leasing, the immediate expensing may not be appropriate in all circumstances.

SSAP No. 19, Furniture, Fixtures, Equipment and Leasehold Improvements, paragraph 4 defines leasehold improvements as (bolded for emphasis) "**lessee expenditures that are permanently attached to an asset** that a reporting entity is leasing under an operating lease."

In defining this issue, NAIC Staff referred to paragraphs 18 and 31 of SSAP No. 40R, Real Estate Investments, which relate to the sale of real estate. Within the guidance of these paragraphs, it is emphasized by Staff that the sale of real estate includes property improvements or integral equipment, which are defined as any physical structure or equipment attached to the real estate that cannot be removed and used separately without incurring significant costs, such as an office building. Interested parties agree if a reporting entity sells real estate, the asset, including property improvements and integral equipment, should be derecognized and a gain or loss on the sale be realized. However, as noted above, this issue relates to when a reporting entity acquires, not sells, a property that it was leasing.

SSAP No. 40R paragraph 8 states (bolded for emphasis), "The cost of real estate represents the fair value of the consideration exchanged plus any costs incurred to place the real estate asset in usable condition, including but not limited to, brokerage fees, legal fees, demolition, clearing and grading, fees of architects and engineers, **any additional expenditures made for equipment and fixtures that are made a permanent part of the structure**…" Therefore, under SSAP No. 40R, leasehold improvements are admitted assets.

The proposed revisions to SSAP No. 19 and SSAP No. 73 both state (**bolded for emphasis; *italics to denote reference to the appropriate party acquiring the leased real estate***):

> The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. **This includes situations in which leased real estate is acquired by the**

reporting entity (*lessee*) ~~lessor~~. If leased real estate is acquired, recognition of the real estate shall follow the provisions in SSAP No. 40R—*Real Estate Investments*.

It is noted in the Staff Recommendation that "[i]t is presumed that the purchase of a property from a third party would include the leasehold improvements as part of the full purchase price." Under this presumption it is logical that the previously recognized leasehold improvements should be immediately expensed, otherwise, the reporting entity would be double counting the assets and related expense. In practice, however, interested parties generally believe this to be an unlikely scenario.

Lease agreements with purchase options can be complex and structured in a myriad of ways depending on how the reporting entity lessee negotiated with the lessor. There may be circumstances that the reporting entity negotiates a reduced price to acquire the real estate formerly leased to compensate for the permanent improvements it previously made. In other situations, the sales price is determined based on the then current fair or appraised value. In this situation, the lessee and lessor will engage a third-party appraiser to establish the sales price. Appraisers generally use the cost, sales comparison, or income approaches to establish the value. Generally, those approaches may not contemplate the specific lessee owned leasehold improvements unless those improvements generate material utility (e.g., expansion of the building itself, or in a ground lease, land improvements or a constructed building, etc.). Accordingly, the reporting entity would not be including in the cost of the acquired real estate any additional expenditures made for equipment and fixtures that are made a permanent part of the structure as required/allowed by SSAP No. 40R if the amendments to SSAP No. 19 and 73 require them to be written off at acquisition.

Additionally, interested parties believe it would generally be economically punitive to a reporting entity to provide consideration to purchase a leased asset to the landlord (seller) that includes significant costs that the reporting entity lessee already incurred for the leasehold improvements. Also, many States require material purchases of real estate (particularly for HMOs) to be approved by the Department of Insurance. Barring any unique circumstances, it is unlikely a regulator would approve a transaction that requires the reporting entity to pay additional amounts to a lessor for costs its already incurred.
Interested parties are also concerned with the additional complexity the exposure draft will add in applying SSAP No 22R versus ASC 842 for GAAP. As it stands today, there is already a cost basis difference between GAAP and SAP when purchasing the underlying leased asset. SSAP No 22R implies that any deferred rent liability upon termination of a lease would be adjusted off to the P&L (i.e., a gain). For GAAP under ASC 842, any remaining lease liability upon purchase of the leased asset is adjusted to the cost basis of the asset (i.e., effectively deferring the gain) along with the unamortized portion of the lessee owned leasehold improvements. Expensing unamortized leasehold improvements in all circumstances for terminated leases for SAP creates further cost basis differences that will artificially and significantly distort earnings and will be extremely difficult to operationalize.

It is also worth noting that for some interested parties, external auditors and regulators have audited these transactions and have been comfortable that duplication is not occurring.

Interested parties suggest that the following amendments be revised guidance of SSAP No. 19 and 73:

> The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in ~~any~~ event**s** in which the lease is terminated in advance of the lease term. **When leased real estate is purchased by the reporting entity lessee resulting in termination of the lease, any unamortized lessee owned leasehold improvements should be added to the cost basis of the acquired real estate and recognized in accordance with SSAP No. 40R – Real Estate Investments. Any unamortized leasehold improvements owned by the reporting entity lessee that have no future economic benefit upon purchase of the leased real estate asset or those included in the purchase price of the acquired real estate should be immediately expensed.** ~~**This includes situations in which leased real estate is acquired by the reporting entity lessor. If leased real estate is acquired, recognition of the real estate shall follow the provisions in SSAP No. 40R—Real Estate Investments.**~~

Recommended Action:

NAIC staff appreciate the thorough comments received from the interested parties. For the Spring National Meeting, it is recommended that the Working Group direct NAIC staff to work further with the interested parties in refining this updated guidance. Below are several issues that will need to be discussed.

- NAIC staff are concerned that the language suggested by interested parties would allow companies to essentially move leasehold improvement assets from being nonadmitted under SSAP Nos. 19 and 73 to be included in the building cost and ultimately reflected as admitted under SSAP No. 40R.

- NAIC staff note that not all lease agreements include provisions for a purchase option at the time that the lease is signed, and in these situations, we believe that the leasehold improvement assets should be expensed at the time of the purchase of the building, as almost all professional real estate companies would factor those leasehold improvements into the value of the building at the time of the purchase.

- For situations where the lease agreement includes purchase options that discuss leasehold improvements, NAIC staff agree that these must be considered as part of the purchase of an asset that was part of a prior lease. NAIC staff agree that there could be some limited situations where the intent is that the leasehold improvement asset would not be included in the purchase price of the building. In these limited situations, the correct accounting may be to add that amount to the cost of the building. However, in these cases, NAIC staff request consult with regulators as to if this exception as it may require verification with the reporting entity's auditor for this accounting treatment for the leasehold improvements.

The comment letters are included in Attachment 16 (22 pages).

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Statutory Accounting Principles (E) Working Group
Meeting Agenda
April 4, 2022
9:45 a.m. – Noon (Central)

A. <u>Consideration of Maintenance Agenda – Pending List</u>

1. Ref #2022-01: Conceptual Framework – Updates
2. Ref #2022-02: SSAP No. 48 – Alternative Valuation of Minority Ownership Interests
3. Ref #2022-03: Premium Adjustments Allocated to Jurisdictions
4. Ref #2022-04: ASU 2021-10, Government Assistance
5. Ref #2022-05: ASU 2021-09, Leases, Discount Rate for Lessees
6. Ref #2022-06: ASU 2021-07, Compensation – Stock Compensation
7. Ref #2022-07: ASU 2021-08, Business Combinations
8. Ref #2022-08: INT 22-01T: Freddie Mac When-Issued K-Deal (WI Trust) Certificates

Ref #	Title	Attachment #
2022-01 Preamble SSAP No. 4 SSAP No. 5R (Jim)	**Conceptual Framework - Updates**	**A – Agenda Item** **B – Issue Paper (SSAP No. 4)** **C – Issue Paper (SSAP No. 5R)**

Summary:
In December 2021, the Financial Accounting Standards Board (FASB) issued two new chapters of its conceptual framework. The conceptual framework is a body of interrelated objectives and fundamentals that provides the FASB with a foundation for setting standards and concepts to consider when it resolves questions or develops/modifies accounting and reporting guidance. It is important to note that the Statements of Financial Accounting Concepts are not authoritative and do not establish new or change existing U.S. GAAP. This agenda item reviews and summarizes each of the two newly issued concept chapters and reviews their potential impact on statutory accounting.

<u>Update 1:</u>
FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements* introduced updated definitions of certain key elements used in financial reporting – the definition of an asset and liability.

Changes regarding **the definition of an ASSET**:

- **Historical definition**: a probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events.
- **Historical Characteristics: Three essential characteristics:**
    1. it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows,
    2. a particular enterprise can obtain the benefit and control others' access to it, and
    3. the transaction or other event giving rise to the enterprise's right to or control of the benefit has already occurred.

- **New Definition**: a present right of an entity to an economic benefit.
- **Current Characteristics:** Two essential characteristics:

    1. it is a present right, and
    2. the right is to an economic benefit.

Commentary regarding definitional changes:
The current definition of an asset no longer includes the term *probable* or the phrases *future economic benefit* and *past transactions or events.* The FASB concluded that the term *probable* has historically been misunderstood as implying that a future benefit must be probable to a certain threshold before the definition of an asset was met. Thus, if the probability of a future benefit was low, an asset could not be recognized. FASB also struck the phrase *future economic benefit* as this phrase often was interpreted that the asset must represent a certain future economic benefit (such as eventual cash inflows), however with this update, FASB clarified that the asset represents the rights to the benefit, not the actual benefit itself – nor the probability of realization.

Changes regarding **the definition of a LIABILITY**:

- **Historical definition**: are [certain or] probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.
- **Historical Characteristics**: Three essential characteristics:

    1. it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand,
    2. the duty or responsibility obligates a particular enterprise, leaving it little or no discretion to avoid the future sacrifice, and
    3. the transaction or other event obligating the enterprise has already happened.

- **New Definition**: a present obligation of an entity to transfer an economic benefit.
- **Current Characteristics**: Two essential characteristics:

    1. it is a present obligation, and
    2. the obligation requires an entity to transfer or otherwise provide economic benefit to others. (For the purposes of this characteristic, *transfer* is typically used to describe obligations to pay cash or convey assets, while the term *provide* is used to describe obligations to provide services or stand by to do so).

Commentary regarding definitional changes:
The current definition of a liability no longer includes the term *probable* or the phrase *in the future as a result of past transactions or events.* The FASB concluded that the term *probable* has historically been understood as implying that a future obligation must meet a probability to a certain threshold before the definition of a liability was met. Thus, if the probability of a future transfer of an asset (or the requirement to provide a service) was low, a liability would likely not be recognized. In removing the term *probable* (and replacing it with "present obligation"), FASB concluded that in almost all situations, the presence of an obligation will be apparent.

FASB also struck the phrase as the result of *past transactions or events.* It was concluded that if the liability represents a *present right*, by default, the right must have occurred as the result of a past transaction or event and thus this phraseology was deemed redundant and unnecessary.

Update 2:
FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 7, Presentation* identifies factors that the FASB will consider when deciding how items should be displayed on the financial statements. Chapter 7 describes the information to be included in the financial statements and how appropriate presentation can contribute to the objective of financial reporting – to communicate financial information about an entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources (goods and services) to the entity.

Chapter 7 supersedes sections of *Statement of Financial Accounting Concept 5* (a concept referenced in the Preamble); however, it did not result in fundamental changes to the principal concepts of financial reporting. The chapter articulates the need for complete financial reporting, describes the interconnectedness of a 'complete set of financial statements' and relays the importance of these documents as the information in the financial statements is the primary (and typically the sole) source for analyzing current and potential future performance of an organization and its ability to meet its long-term financial objectives.

In terms of the impact to statutory accounting, the updated concepts in this chapter are not expected to modify current guidance, other than to update references to superseded accounting concepts.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to the Preamble, *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets,* as illustrated in the agenda item and in the issue papers, to incorporate updates from *Chapter 4, Elements of Financial Statements* and *Chapter 7, Presentation* of the FASB's Conceptual Framework for Financial Reporting.

Ref #	Title	Attachment #
2022-02 SSAP No. 48 (Jim)	**SSAP No. 48 – Alternative Valuation of Minority Ownership Interests**	**D**

Summary: SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies specifies that if an insurer has less than 10% ownership, measured at the holding company level, or lacks control, the investment is generally required have a U.S. GAAP financial statement audit. However, when audited U.S. GAAP financials statements are not available, SSAP No. 48 provides three U.S. GAAP audit alternatives, which includes: 1) audited foreign GAAP with an audited U.S. GAAP reconciliation footnote, 2) audited IFRS financial statements, or 3) audited U.S. tax equity financial statements. Upon inquiries with industry representatives regarding the use of the audited U.S. tax equity alternative, NAIC staff received informal comments from a member of the NAIC's AICPA Task Force which indicated that they were unaware of audit firms issuing audit opinions based on a U.S. tax basis, nor were they aware of any insurer having obtained an U.S. tax basis audit to utilize this U.S. GAAP audit exception.

As a result, this agenda item has been drafted to propose two alternative clarifications to SSAP No. 48. The first option presented is to propose deletion of the U.S. GAAP audit exception provided in SSAP No. 48, paragraph 9.b (the audited U.S. tax equity alternative) as this exception does not appear to be utilized by insurers. The second option presented is to retain the U.S. GAAP audit exception in paragraph 9.b but clarify that the U.S. tax basis audit is to reside at the investee level – that is the investee must have an audit in order for this valuation be permitted for admission of the investment.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose two possible options for the U.S. GAAP audit exception in *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies.* Option #1 proposed to delete the audited U.S. tax basis equity as a permissible valuation method as this method does not appear to be utilized by insurers. Option #2 proposed to retain the audited U.S. tax basis equity valuation method but clarifies that the audit must reside at the investee level.

Ref #	Title	Attachment #
2022-03 Blanks (Robin)	**Premium Adjustments Allocated to Jurisdictions**	**E**

Summary:
This agenda item has been drafted to propose blanks instructional changes primarily to Schedule T which reflects premiums, allocated by states and territories. NAIC staff received inquiries from 3 states in the fourth quarter of 2021 regarding a minor number of entities that primarily wrote health business related to the Affordable Care Act (ACA) which are believed to have not properly allocated premium adjustments by jurisdiction on the statutory financial statement. The states identified that a minority of entities reported some portion of their U.S.-based premium in the category of "aggregate other alien." The aggregate other alien line is for non-U.S. premium therefore, reporting U.S.-based ACA premium as alien is problematic. The purpose of this agenda item is to add additional annual statement instructions to address this reporting inconsistency. Regardless of the cause of this specific issue, the proposed revisions intend to clarify that premium adjustments (both increases and decreases) shall be reflected in the appropriate jurisdiction. This proposal is to address this current issue future situations.

The specific premium identified is understood to be ACA premium written in the U.S. and its territories. Based on the descriptions provided, most of the amounts are presumed to be from premium redistribution as a result of the risk adjustment program of the ACA. All of the premium adjustments from the ACA risk adjustment program, and the risk corridor program, are noted as premium in *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act*. (Although the risk corridor program ended in 2016, distributions related to 2015-2016 plan years have been received in the last two years due to a U.S. Supreme Court decision.)

The ACA risk adjustment premium redistribution calculations are calculated by plan and by jurisdiction. Therefore, the jurisdictions are known. The ACA risk adjustment program redistributes premium from plans that have relatively healthier insureds and gives to plans with relatively less healthy insureds based on risk scores. SSAP No. 107 directs reporting the premium adjustments in the ACA risk adjustment program as premium subject to redetermination, which requires accruing the adjustments based on policy experience. Because of the way the ACA risk adjustment program premium adjustments calculation works, an insurer can have both payables and receivables in different plans in the same jurisdiction. Total premium in the state is redistributed among same level plans, no new funds are added.

NAIC staff understanding is that most states would treat the premium after adjustments (both increases and decreases) as the amount subject to premium tax. However**, preliminary conversations** some health entities have asserted that they believe their state only subjects the premium prior to adjustment to premium tax. In the statutory annual statement, the premium including adjustments should be reported as premium subject to redetermination as identified in SSAP No. 107**.** If a jurisdiction treats premium differently for tax purposes, that would be addressed on the jurisdiction's premium tax return. In the examples below the total premium columns are what is reported in the state A and B lines of Schedule T.

State A	Initial Premium	Premium Adjustments/ Redistribution	**Total Premium**
1	$ 100	$ 40	$ 140
2	$ 100	$ (25)	$ 75
3	$ 100	$ -	$ 100
total	$ 300	$ 15	$ 315

State B	Initial Premium	Premium Adjustments/ Redistribution	**Total Premium**
1	$ 100	$ 20	$ 120
2	$ 100	$ (25)	$ 75
3	$ 100	$ (15)	$ 85
total	$ 300	$ (20)	$ 280

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and concurrently expose an annual statement blanks proposal for 2022 annual reporting. The sponsored blanks proposal has been forwarded to the Blanks (E) Working Group (2022-10BWG) to modify the instructions for Schedule T, the State Page and Accident and Health Policy Experience Exhibit (AHPEE) to clarify guidance for premium adjustments. This agenda item does not result in SSAP revisions. The proposed additions to the blanks instructions are shown in the agenda item, but the primary instructional revision is as follows:

> All premium adjustments (both increases and decreases), including but not limited to Affordable Care Act (ACA) premium adjustments related to the risk adjustment program, shall be allocated as premium in the respective jurisdiction.

Ref #	Title	Attachment #
2022-04 SSAP No. 24 (Jim)	**ASU 2021-10, Government Assistance**	**F**

Summary:
In November 2021, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update* (ASU) *2021-10, Government Assistance, Disclosures by Business Entities about Government Assistance* to increase financial statement transparency regarding certain types of government assistance by increasing the disclosure of such information in the notes to the financial statements. The new disclosure aims to increase transparency by enhancing the identification of 1) the types of assistance received, 2) an entity's accounting for said assistance, and 3) the effects of the assistance in an entity's financial statements. The disclosures will contain information about the nature of the transactions, which includes a general description of the transaction and identification of the form (cash or other) in which the assistance was received. In terms of the effects on the financial statement, disclosure will include identification of the specific line items in both the balance sheet and income statement and a description of the extent to which they have been impacted by any government assistance. In addition, an entity will be required to disclose information about any significant terms of the transaction with a government entity, with items including durations of such agreements and any provisions for potential recapture.

ASU 2021-10 defines "government assistance," in a comprehensive manner to capture most types of assistance and includes examples of tax credits, cash grants or grants of other assets. The scope of this ASU is narrow as it does not apply to not-for-profit entities or benefit plans. Further narrowing in scope, the new disclosure requirements in this ASU only apply to transactions that are accounted for by analogizing either a grant or contribution model. As such, these enhanced disclosures do not apply to government transactions that are accounted for in accordance with other codification topics, such as classifying the transactions as debt in ASC 470, income taxes in ASC 740, or as revenue from contracts with customers in ASC 606.

NAIC staff note that that it is anticipated that for most entities who qualified for and received Paycheck Protection Program (PPP) loans, as authorized by the CARES Act, that the additional disclosures in this ASU still would not apply. It is believed that most insurance reporting entities accounted for PPP transactions as liabilities per *SSAP No. 15—Debt and Holding Company Obligations* which at the time of extinguishment of debt was reported as a capital gain.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*, incorporating certain disclosures from ASU 2021-10. The proposed additions will supplement existing

disclosures to require that if the unusual or infrequent item is as the result of government assistance, the transaction will require identification as well as a description of the terms and provisions of the assistance received.

NAIC staff recommend incorporating the new disclosures in ASU 2020-10, modified only to require the supplemental disclosures for all entity types (as SAP disclosures do not differentiate between entity type – i.e., not-for-profit vs. other). As a final note, existing disclosures for unusual/infrequent items (captured in financial statement note #21) already contains the requirement to identify the specific line items which have been affected by the events or transactions considered to be unusual and/or infrequent - thus that specific portion of ASU 2021-10 was not proposed for inclusion.

Ref #	Title	Attachment #
2022-05 SSAP No. 22R (Jake)	**ASU 2021-09, Leases, Discount Rate for Lessees**	**G**

Summary:
In November 2021, FASB issued ASU *2021-09, Leases (Topic 842), Discount Rate for Lessees That Are Not Public Business Entities*. This ASU was issued as part of FASB's post-implementation review to address issues that have been found during the implementation of the new lease guidance from *ASU 2016-02, Leases (Topic 842)*. Topic 842 generally requires the capitalization of leases, which is calculated by discounting the lease payments utilizing the implicit rate in the lease, or if not determinable, the lessee's incremental borrowing rate. However, the standard also provides nonpublic entities with a practical expedient, permitting the use of a risk-free rate (e.g., U.S. Treasury Rate) for the capitalization calculation. The amendments in ASU 2021-09 state that when the rate implicit in the lease is readily determinable for any individual lease, that the lessee should use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election.

The guidance provided in this ASU is specific to the financing lease treatment under U.S. GAAP, and since *SSAP No. 22R—Leases* requires nearly all leases to be treated as operating leases for statutory accounting, adoption of this guidance would be unnecessary.

Recommendation:
NAIC staff recommends the Working Group move this agenda item to the active listing, categorized as a SAP clarification and expose revisions to reject ASU 2021-05 in *SSAP No. 22R—Leases*. Under statutory accounting almost all leases are classified as operating leases, thus this U.S. GAAP guidance is not necessary.

Ref #	Title	Attachment #
2022-06 SSAP No. 104R (Jim)	**ASU 2021-07, Compensation – Stock Compensation**	**H**

Summary:
In October 2021, FASB ASU *2021-07, Compensation – Stock Compensation (Topic 718), Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards* to offer nonpublic companies a practical expedient to one of the several inputs necessary for option-priced modeling. When equity share options or similar instruments are granted in a share-based payment transaction, the fair value (which is used to determine expense recognition at inception and during any subsequent award modification) is estimated using an option-pricing model valuation technique.

In terms of option-priced models, the Black-Scholes-Merton model is considered to be one of the most widely used as it has less complexity than other pricing models. However, despite its reduced complexity, it (and various other pricing models) requires numerous inputs which typically include exercise price, expected dividend rate, risk-free interest rate, expected term, expected share price volatility, and current share price. For public entities, the determination of these values is generally readily available, however for nonpublic entities, many of these inputs are not easily determinable. This ASU provides a practical expedient (not an accounting alternative) to one of the inputs used for nonpublic companies in their option-pricing modeling and is the third such practical expedient permitted in Topic 718, of which the previous two have previously been adopted and are currently permissible for use in *SSAP No. 104R—Share-Based Payments*.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 104R—Share-Based Payments* to incorporate the practical expedient for the current price input, a required component for the option-pricing models – models in which are utilized in the determination of fair value for share-based payments. Integration of this third practical expedient is consistent with previous decisions by the Working Group to adopt the prior two practical expedients regarding option-pricing modeling input permitted by FASB. The language proposed by NAIC staff directs that the practical expedient is only available when a reporting entity is not able to reasonable estimate the current fair value. While this language is technically broader than what was adopted by FASB (as ASU 2021-07 directly references non-public companies), the proposed language is consistent with prior Working Group adoptions and by default, should not be utilized by public entities – as they would be able to reasonable estimate fair value, which is likely the publicly traded share price.

Ref #	Title	Attachment #
2022-07 SSAP No. 47 SSAP No. 68 (Jim)	**ASU 2021-08, Business Combinations**	**I**

Summary:
In October 2021, FASB issued ASU *2021-08, Business Combinations, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* to require acquiring entities to apply Topic 606 (the topic that specifies the accounting for revenue and liabilities resulting from contacts with customers), when valuing and recognizing contract related assets and liabilities in a business combination. Prior to the issuance of ASU 2021-08, acquirers would generally only recognize such items based on their fair values on the date of acquisition. When assessing liabilities at fair value, acquirers would generally only recognize an acquiree's deferred revenue (i.e., a contract liability), to the extent the acquirer had a legal obligation to perform a service or remit a product. However, to only recognize a contract liability to the extent of a legal obligation is contrary to Topic 606 as it states that performance obligations may (and often) extend beyond legal obligations – with examples including implied promises and customer business practices within the contract with a customer, regardless of whether such promises were legally enforceable.

For statutory accounting, other than the reporting of statutory goodwill, the acquiree's book value of all associated assets (and liabilities) are reported on the acquirer's books. As ASU 2021-08 requires the acquirer to utilize the acquiree's book value, measured via Topic 606, for contract liabilities, the practice (unless the acquiree has not previously or has incorrectly applied Topic 606) while conceptually consistent statutory accounting requirements, requires a measurement method previously rejected by statutory accounting.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as SAP clarifications to:

1) **Expose revisions to *SSAP No. 47—Uninsured Plans* to reject ASU 2021-08 for statutory accounting**. This recommendation is consistent with how the prior ASUs related to Topic 606 have been treated.

2) **Expose revisions to *SSAP No. 68—Business Combinations and Goodwill* to reject the ASU 2021-08 for statutory accounting, while noting that rejection does not impact the determination of U.S. GAAP book value in an acquired entity.** NAIC staff note that as all prior Topic 606 guidance has been rejected for statutory accounting, the explicit rejection of this ASU should not be construed to mean that the U.S. GAAP net book value (which is utilized for the determination of statutory goodwill) will need to be modified by the guidance required in this ASU. The intent is to not modify any U.S. GAAP requirements for the determination of U.S. GAAP net book value within this standard.

Ref #	Title	Attachment #
2022-08 SSAP No. 43R (Julie)	**INT 22-01T: Freddie Mac When-Issued K-Deal (WI Trust) Certificates**	**Agenda Item – J Draft Interpretation - K**

Summary:
Freddie Mac "When Issued K-Deal" certificates ("WI") are backed by an asset pool held in trust, but those assets do not initially include any mortgages or mortgage-backed assets. Rather these assets include cash from the sale of the WI certificates and a commitment by Freddie Mac to deliver one or more structured pass-through certificates (SPCs) in exchange for the WI trust's cash within approximately 90 days of settlement. The date on which this delivery occurs is referred to as the "Subsequent Transfer Date".

Prior to the Subsequent Transfer Date, the WI trusts pay fixed coupons to certificate holders which are funded from a Freddie Mac guarantee on the WI certificates. After the Subsequent Transfer Date, the WI trust will hold the promised SPCs which are backed by mortgages and guaranteed by Freddie Mac. Additionally, after this date the WI trust becomes a pass-through of the underlying trust. The WI certificates have an optional exchange right where they can be exchanged for the underlying SPCs, but if not exchanged, the WI certificates after the Subsequent Transfer Date will still be backed by the SPCs.

The issue is the statutory accounting treatment of WI certificates prior to the Subsequent Transfer Date. Sponsoring entity requests statutory accounting guidance to confirm that WI Trust SPCs shall be reported in scope of *SSAP No. 43R—Loan-Backed and Structured Securities* and not as a forward contract under *SSAP No. 86—Derivatives*.

Recommendation:
NAIC staff recommends that the Working Group expose a tentative statutory accounting interpretation to clarify that investments in the Freddie Mac WI Program shall be captured in scope *of SSAP No. 43R—Loan-Backed and Structured Securities* from initial acquisition. Key elements for this recommendation include:

- The WI Program is fully guaranteed by Freddie Mac and ensures that the investor will receive pass-through certificates, backed my mortgage loans held in trust, that reflect the terms of the investment set at original acquisition. In the event that the K-Deal certificates cannot be acquired, Freddie Mac is guaranteed to provide payment to the investor that reflects the full principal and interest per the original terms of the agreement, which reflects the payments that would have been received overtime if K-Deal certificates had been acquired.

- The definition of a forward contract in SSAP No. 86 reflects an agreement between two parties that commit one party to purchase and another party to sell the instrument underlying the contract at a specified future date. With the WI Trust Program, the investor does not have a future commitment to acquire securities, as the investor acquires the WI Trust certificate on day one of the transaction and the investor is not required

to convert the WI Trust certificates at any time. This WI Trust certificate is not a derivative instrument, as at the time of acquisition, the certificate reflects a tradeable investment in a trust structure backed by cash and a Freddie Mac guarantee of cash flows in accordance with terms established at original acquisition. In addition to having no variation to the investor as a result of an underlying interest, there is no requirement on the investor to take delivery of a different investment. The ability to convert the WI Trust certificate to a K-Deal certificate is strictly an election to the investor and is not a requirement to receive the pass-through cash flows per the terms of the initial investment.

- The WI Program, and resulting obligation of Freddie Mac, ultimately reflects an investment where the investor receives pass-through cash flows generated from mortgage loans acquired and held in trust. This is within the scope of *SSAP No. 43R—Loan-Backed and Structured Securities*, paragraphs 2-4.

- The WI Program, and treatment as a SSAP No. 43R security, is consistent with the current guidance for TBA securities when an insurer intends to take possession of the resulting mortgage-backed security. A TBA security reflects the pre-purchase of mortgage-backed securities prior to the finalization of the security issuance. Pursuant to the annual statement instructions, TBA securities are to be reported on Schedule D-1: Long-Term Bonds unless the structure more closely resembles a derivative. This determination depends on how a company uses the TBA. (For example, if a company intended to assume the mortgage-backed security once issued, the TBA would be captured on Schedule D-1 at initial acquisition. If a reporting entity was to continually trade/roll TBA exposures, this would be more characteristics of a derivative and would be captured on Schedule DB as a derivative.)

ANY OTHER MATTERS

a. Review of GAAP Exposures – Attachment L - (Jason)
The attachment details the items currently exposed by the FASB. NAIC staff recommends reviewing the issued ASUs under the standard SAP maintenance process. Comments are not recommended at this time – NAIC staff recommend review of the final issued ASU under the SAP Maintenance Process as detail in *Appendix F—Policy Statements.*

b. Update on Working Group referral to CASTF – (Robin)

The Casualty Actuarial and Statistical (C) Task Force met on March 8th to discuss a recommendation regarding the Working Group referral on agenda item 2019-49: Retroactive Reinsurance Exception regarding diversity in reporting for retroactive intercompany reinsurance contracts, which meet the exception and allow for prospective reporting. The primary issue to address is whether to allocate premium back to prior years on annual statement Schedule P when multiple years of premium are ceded to a reinsurer. No matter which methodology is used, such contracts produce distortions, and determining what will produce the most useful Schedule P information. In addition, the Task Force discussions have also identified that may be disconnects between some of the *SSAP No. 62R—Property and Casualty Reinsurance* guidance in paragraphs 36 and 37 and the intercompany pooling guidance in the annual statement instructions.

In December 2021, the Task Force exposed a presentation and requested comments. During the March 8 meeting CASTF discussed the following three options:

1) Effectively forward the work completed and let SAPWG decide any further action. In this option, we would write a memo describing the issue and summarizing the PowerPoint presentation that the Task Force exposed and attach the two comment letters.
2) In addition to #1 above, develop and propose edits to Schedule P Instructions, and try for greater clarity in SSAP 62R paragraphs 36/37.
3) Do additional research -- dig deeper for others' recommendations / consult interested parties in addition to Connecticut and RAA.

After discussion, which highlighted that as actuaries are the primary users of Schedule P, they should be involved in drafting instructional revisions, the Task Force agree to proceed with option 2. NAIC staff will continue to participate in the subgroup.

Comment Deadline for Exposures is Friday, June 3, 2022, for all items except for:

1. Agenda item 2022-03: Premium by Jurisdiction has a May 6, 2022, comment deadline because of the year-end 2022 blanks impact. The earlier comment deadline is to allow for Working Group adoption consideration prior to the Blanks (E) Working Group meeting, which is anticipated to occur in June.

2. Agenda item 2022-08: Freddie Mac When-Issued K-Deal (WI Trust) Certificates has a May 6, 2022, comment deadline.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2022/4- Spring NM/Meeting/0-4-2022 SAPWG Meeting Agenda.docx