**MEMORANDUM**

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| To: | Dale Bruggeman, Statutory Accounting Principles (E) Working Group Chair  Kevin Clark, Statutory Accounting Principles (E) Working Group Vice Chair |
| From: | NAIC SAPWG Staff |
| CC: | NAIC Support Staff: Todd Sells/ [Tim Nauheimer](mailto:tnauheimer@naic.org) |
| Date: | November 21, 2022 |
| Re: | Update on SAPWG Items Included in the List of MWG Considerations |

At the Summer National Meeting, the Statutory Accounting Principles (E) Working Group (SAPWG) received a referral from the Macroprudential (E) Working Group (MWG) of the Financial Stability (E) Task Force (FSTF). This referral, as part of an activities-based framework developed by MWG which provides a list of thirteen regulatory considerations initially developed for private equity (PE) owned insurers, which can be relevant to any ownership type and/or corporate structure. The MWG and FSTF adopted a final plan for addressing each of the thirteen considerations, including referrals to other NAIC committee groups.

Within the thirteen regulatory considerations, several items were directed at SAPWG, and some were directed at other groups but have characteristics that needed to be addressed by SAPWG. Where relevant, SAPWG agenda items have their Ref # noted. Blanks (E) Working Group (BWG) agenda items have also been noted and have BWG following the reference number to distinguish the groups.

1. **The following actions have been taken by the SAPWG to address the referrals:**

1. **Issue – Pension Risk Transfers (PRT)—**with the trend of life insurers’ increased pension risk transfer (PRT) business, regulators are reviewing such business with the more complex investments.

* *Ref #2020-37: Separate Account – Product Identifiers* and *Ref #2020-38: Pension Risk Transfer - Separate Account Disclosure* which did not result in statutory accounting revisions but instead resulted in modifications to the reporting of PRT transactions in the annual financial statements was adopted by the SAPWG May 2021.
* Ref #2021-03BWG was adopted by Blanks (E) Working Group in 2021.

**Comment** – The 2022 review of the initial 2021 disclosures noted that although the instructions were clarified to require by product reporting including the use of a distinct disaggregated product identifier for each product represented most entities are still broadly grouping PRT activity in the disclosures.

1. **Issue - The lack of identification of related party-originated investments** (including structured securities). These investments may create potential conflicts of interests and excessive and/or hidden fees in the portfolio structure, as assets created and managed by affiliates may include fees at different levels of the value chain. **MWG also noted broader considerations around affiliated asset managers and disclaimer of affiliation.**

* Ref #2019-34 included revisions that clarify: 1) identification of related parties; 2) a non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or affiliation; 3) a disclaimer of control or affiliation does not eliminate the classification as a “related party” and the disclosure of material transactions. Additionally, revisions reject several U.S. GAAP variable interest entities standards.

This agenda items also resulted in the creation of a New Schedule Y part 3. Part 3 – Ultimate Controlling Party and Listing of Other U.S. Insurance Groups or Entities Under That Ultimate Controlling Party’s Control A new Schedule Y, Pt 3, was effective for year-end 2021. This schedule identifies all entities with greater than 10% ownership – regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation and identifies the ultimate controlling party. (Adopted March 2021)

* Ref #2021-21 included revisions that clarified guidance and developed a blanks proposal which provided new investment schedule reporting codes to identify investments that involve related parties. (Adopted May 2022).
* Ref #2020-37 BWG adopted March 2021 added new Schedule Y part 3
* Ref #2021-22 BWG added six related party reporting codes effective for year-end 2022. The investment schedule disclosures are the use of code indicators to identify the role of the related party in the investment, e.g., a code to identify direct credit exposure as well as codes for relationships in securitizations or similar investments. (Adopted May 2022)

1. **The following topic may be better addressed by another group:**
2. **Issue - Surplus Notes and appropriate interest rates given their special regulatory treatment, including whether floating rates are appropriate.**

No action has been taken by the SAPWG on the appropriate interest rates for surplus notes, however we note that the terms of surplus notes are subject to regulatory approval and the fair and reasonable standards of the *Insurance Holding Company System Regulatory Act* (Model #440). If additional criteria are determined to be needed for the interest rates of surplus notes, this guidance might be better in the financial analysis or examiner handbooks as this involves regulator review rather than the accounting provisions.

1. **The following referral topics are ongoing:**
2. **Issue - Related party investment identification**

* Note -The results of the year-end 2022 investment schedule related party reporting codes from proposal 2021-21 (2021-22 BWG) will be available to be reviewed after the March 2023 filings.
* Ref #2022-15 affiliated investment reporting is recommended for exposure at the 2022 Fall National Meeting. It adds clarifying guidance on reporting of affiliated investments.

1. **Issue - Enhanced reporting of bond definitions in SSAP No. 26R, 43R and reporting. As part of a project known as the bond project the** SAPWG is developing a proposal to revamp Schedule D reporting, with primary concepts to use principles to determine what reflects a qualifying bond and to identify different types of investments more clearly. For example, D1 may include issuer credits and traditional ABS, while a sub-schedule of D1 could be used for additional disclosures for equity-based issues, balloon payment issues, etc. Rewrites of schedule D are expected to be effective in 2025, the bond project is making progress towards its accounting and reporting goals.

The Ref# 2019-21 is the primary Form A; however the project has several documents. Including data capture of Payment in Kind interest being discussed (Ref #2022-17 Interest income disclosure update) for exposure at the 2022 Fall National Meeting.

The SAPWG will continue to respond as issues identified related to the MWG referral are identified. Please contact NAIC staff for assistance.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2022/Fall - December/Meeting/L - Macro Referral Update.docx