ACLI
Financial Security for Life

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Ms. Carrie Mears, Chair
Valuation of Securities Task Force

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group

National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Supply Chain Finance also known as Working Capital Finance Investments

Dear Ms. Mears and Mr. Bruggeman:

ACLI appreciates the opportunity to comment on the Task Force's Amendment to Permit Un-Guaranteed and Unrated Subsidiary Obligors in WCFI Transactions, with SVO Discretion. We also want to thank the NAIC and staff for engagement and continuing efforts to address various investment and statutory accounting issues and we appreciate the opportunity to call your attention to pending changes to both FASB[1] and IFRS[2] accounting standards. Both bodies have recently issued exposure drafts for comment that cover required disclosures of balance sheet accounts regarding use of what has been termed supply chain finance that in the context of the NAIC are known as Working Capital Finance Investments (SSAP 105).

Attached to this letter is a copy of FASB's exposure draft which was placed on its agenda from a joint request from the Big 4 accounting firms. All companies preparing financial statements need comply and all disclosures are subject to audit by the filing entity auditor with the FASB exposure draft disclosure requirements summarized below:

> 405-50-50-3 An entity shall disclose all the following information about its supplier finance programs:
> a. The key terms of the program.

[1] https://www.fasb.org/jsp/FASB/FASBContent_C/ProjectUpdateExpandPage&cid=1176175475663
[2] https://www.ifrs.org/projects/work-plan/supplier-finance-arrangements/exposure-draft-and-comment-letters/

b. The following information about the amount of obligations outstanding at the end of the reporting period that the entity has confirmed as valid to the finance provider or intermediary under the program (that is, the amount of obligations confirmed under the program that remains unpaid by the entity):

1. ***Where those obligations are presented in the balance sheet.*** If those obligations are presented in more than one balance sheet line item, then the entity shall disclose the amount outstanding at the end of the reporting period in each line item.
2. A rollforward of those obligations showing, at a minimum, all the following:
i. The amount of those obligations outstanding at the beginning of the reporting period
ii. The amount of those obligations added to the program during the reporting period
iii. The amount of those obligations settled during the reporting period
iv. The amount of those obligations outstanding at the end of the reporting period.

We want to share several observations about the proposed disclosures and its potential impact on insurance filers as well as on the current SSAP and the remaining open issues and to make several recommendations.

In brief, SSAP 105 was approved in late 2013 with industry as the catalyst for its development. Adoption was low with industry again serving as catalyst for review beginning in 2016 with request for 10 critical revisions in 2017 of which 7 were adopted in 2020. Subsequent adoption of the 2020 revisions also remains low.

The three remaining items not adopted by the NAIC include Schedule BA reporting, restrictions to NAIC 1 and 2 equivalent ratings and limitations of issuers' unrated subsidiaries which is currently the subject of evaluation by both the VOS. Importantly, each of these items are directly addressed through the pending FASB rules:

1. In the case of insurance reporting, FASB requires the corporate entity to disclose specifically where those liabilities are reported in the financial statements likely classified either as either accounts payable or debt. Schedule D is the appropriate insurance reporting schedule for such liabilities and not Schedule BA. The continuing reporting on Schedule BA is inappropriate and is a significant obstacle to adoption by insurers as, and we cannot stress this enough, the extra scrutiny of BA assets is something that many insurance filers avoid.

2. In the case of corporate entities, all companies that utilize supply chain finance will be required to disclose the arrangements, regardless of their NRSRO credit rating. In the case of the SSAP, the restriction to NAIC 2 and higher investments, which is the only investment asset class to have such a restriction, creates a considerable challenge for investment. This restriction is inappropriate as well. As the SVO has discretion to notch a potential filing, in the case of a downward notching below NAIC 2 of a filing, the investment under the existing rules would become non-admitted. There is considerable expense and risk associated with RTAS approval and ratings equivalent assignment. Uncertainty concerning filing creates limitations on the willingness of insurance filers to invest given the increased risk associated with possible downward notching.

3. In the case of subsidiaries and affiliates as part of an organization that is utilizing supply chain finance, its obligations are subject to reporting and audit as consolidated in the accounts under the FASB rules. While this is currently being addressed by the VOS it is also worth noting that there has been significant resistance among staff and some regulators regarding

the perceived risks about unrated subsidiary obligations and suitability for investment. The SSAP restriction offers no meaningful purpose.

ACLI recommends that the remaining restrictions for Schedule BA reporting and for limitations to NAIC 2 or higher obligors be removed from the SSAP. Apt in the context of the pending disclosures is Supreme Court Justice Louis Brandeis statement that "sunlight is said to be the best of disinfectants" from his 1913 Harper's Weekly article entitled "What Publicity Can Do", the pending changes will lead to a significant expansion of awareness of the asset class and will also lead to broader opportunities for investment. While the insurance industry has had a head start, given the restrictiveness of the SSAP it has not benefited. Time is of the essence to complete the work and amend the SSAP to resolve the remaining investment issues and request your consideration of resolving these open matters promptly.

If you have any questions in the interim, please do not hesitate to contact me.

Attachments: FASB Exposure Draft - Liabilities—Supplier Finance Programs (Subtopic 405-50)

Sincerely,

Mike Monahan
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Cc: Julie Gann, Charles Therriault