ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Accounting Practices and Procedures (E) Task Force December 8, 2019, Minutes
Statutory Accounting Principles (E) Working Group December 7, 2019, Minutes (Attachment One)
Statutory Accounting Principles (E) Working Group September 9, 2019, Minutes (Attachment One-A)
Comment Letters Received on Previously Exposed Items (Attachment One-B)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-19; SIRI – Equity Interests (Attachment One-C)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-22; Wash Sale Disclosure (Attachment One-D)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-23; Going Concern (Attachment One-E)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-26; Appendix A-785 Revisions from U.S./EU and U.S./UK Covered Agreements (Attachment One-F)
Accounting Practices and Procedures Manual Editorial and Maintenance Update (Attachment One-G)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-28; ASU 2019-05, Targeted Transition Relief (Attachment One-H)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-29; ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities (Attachment One-I)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-30; ASU 2019-03, Updating the Definition of Collections (Attachment One-J)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-31; ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Attachment One-K)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-18; Accounting for “Other” Derivatives (Attachment One-L)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2017-28; Reinsurance Credit (Attachment One-M)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-12; ASU 2014-17, Business Combinations – Pushdown Accounting, a Consensus of the FASB Emerging Issues Task Force (Attachment One-N)
Blanks (E) Working Group October 22, 2019, Minutes (Attachment Two)
Blanks (E) Working Group September 5, 2019, E-Vote Minutes (Attachment Two-A)
Blanks (E) Working Group August 20, 2019, Minutes (Attachment Two-B)
Blanks (E) Working Group Agenda Item Submission Form 2019-18BWG Modified; Effective Annual 2020; Add NAIC Designation Modifier to NAIC Designation Column for Schedule D, DL and BA to Accommodate NAIC Designation Category Granularity Framework Adopted by Valuation of Securities (E) Task Force (Attachment Two-B1)
Blanks (E) Working Group Editorial Revisions to the Blanks and Instructions Presented at the August 20, 2019, Meeting (Attachment Two-B2)
Blanks (E) Working Group Agenda Item Submission Form 2019-21BWG; Effective Annual 2020; For Note 33, Modify the Illustrations to Disclosure Individually Separate Account with Guarantees Products and Separate Account Nonguaranteed Products (Attachment Two-C)
Blanks (E) Working Group Agenda Item Submission Form 2019-22BWG; Effective Annual 2020; Add a Question Regarding the Executive Summary of the PBR Actuarial Opinion to the Supplemental Exhibits and Schedules Interrogatories (Attachment Two-D)
Blanks (E) Working Group Agenda Item Submission Form 2019-23BWG Modified; Effective 1st Quarter 2020; Modify the Instructions and Illustration for Note 8 – Derivatives for Disclosures Adopted by SSAP No. 108. Add Instructions and a Blanks Page for Schedule DB, Part E, to the Quarterly Statement (Attachment Two-E)
Blanks (E) Working Group Agenda Item Submission Form 2019-24BWG; Effective 1st Quarter 2020; Add a Life Experience Data Contact to the Electronic Jurat Page for Life/Fraternal Companies Only. Health, Property and Title are Included in the Proposal Due to the Jurat Instructions Being Uniform for all Statement Types (Attachment Two-F)
Blanks (E) Working Group Editorial Revisions to the Blanks and Instructions Presented at the October 22, 2019, Meeting (Attachment Two-G)
Accounting Practices and Procedures (E) Task Force August 22, 2019, Minutes (Attachment Three)
Blanks (E) Working Group Agenda Item Submission Form 2019-20BWG Modified; Effective Annual 2019; Add “Qualification Documentation” to Require the Appointed Actuary to Maintain Workpapers Explaining How the
Actuary Meets the Definition of a “Qualified Actuary.” Add a New Objective Definition of “Qualified Actuary” and the Results of an Assessment of Actuarial Educational Syllabi in an “NAIC-Accepted Actuarial Designation” Section (Attachment Three-A)
The Accounting Practices and Procedures (E) Task Force met in Austin, TX, Dec. 8, 2019. The following Task Force members participated: Kent Sullivan, Chair, represented by Jamie Walker (TX); Jeff Rude, Vice Chair, represented by Linda Johnson (WY); Lori K. Wing-Heier represented by David Phifer (AK); Jim L. Ridling represented by Sheila Travis (AL); Allen W. Kerr represented by Mel Anderson (AR); Andrew N. Mais represented by William Arfanis and Kathy Belfi (CT); Stephen C. Taylor represented by N. Kevin Brown (DC); Trinidad Navarro represented by Ryllynn Brown (DE); David Altmaier represented by Virginia Christy (FL); Dafone M. Shimizu represented by Alice Sebastian-Cruz (GU); Colin M. Hayashida represented by Andrew Kurata (HI); Doug Ommen represented by Carrie Mears (IA); Dean L. Cameron represented by Nathan Faragher (ID); Stephen W. Robertson represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Nancy G. Atkins represented by Sandy Batts (KY); James J. Donelon represented by Stewart Guerin (LA); Gary Anderson represented by James A. McCarthy (MA); Eric A. Cioppa represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver (MI); Steve Kelley represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by David Browning (MS); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Bruce R. Ramge represented by Justin Schrader and Lindsay Crawford (NE); Marlene Caride represented by Diana Sherman (NJ); John G. Francini represented by Leah Geckler (NM); Jillian Froment represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Jessica Altman represented by Kimberly Rankin (PA); Elizabeth Kelleher Dwyer represented by Jack Broccoli (RI); Larry Deiter represented by Johanna Nickelson (SD); Hodgen Mainda represented by Trey Hancock (TN); Todd E. Kiser represented by Jake Garn (UT); Scott A. White represented by Doug Stolte and Dave Smith (VA); Michael S. Pieciak represented by Karen Ducharme (VT); Mike Kreidler represented by Patrick McNaughton (WA); Mark Afable represented by Amy Malm (WI); and James A. Dodrill represented by Justin Parr (WV).

1. **Adopted its Minutes**

Ms. Walker directed the Task Force to its Aug. 22 and Summer National Meeting minutes, which were previously distributed.

Mr. Phifer made a motion, seconded by Mr. Bruggeman, to adopt the Task Force’s Aug. 22 minutes (Attachment Three) and its Aug. 4 minutes (see NAIC Proceedings – Summer 2019, Accounting Practices and Procedures (E) Task Force). The motion passed unanimously.


Mr. Bruggeman provided the Dec. 7 report of the Statutory Accounting Principles (E) Working Group. Mr. Bruggeman stated that the Working Group adopted its Sept. 9 and Summer National Meeting minutes.

Mr. Bruggeman stated that the Working Group adopted the following nonsubstantive revisions to statutory accounting guidance:

- **Revisions to Statement of Statutory Accounting Principles (SSAP) No. 61R—Life, Deposit-Type and Accident and Health Reinsurance adopt:** 1) SSAP No. 61R disclosures with an effective date of Dec. 31, 2020; 2) A-791 Question and Answer (Q&A) updates regarding contracts with medical loss ratios (MLRs); and 3) updates to the 2c. Q&A regarding risk transfer and group term life yearly renewable term (YRT) reinsurance with an effective date of Jan. 1, 2021. The proposed revisions to the A-791 Q&A regarding the scope of nonproportional contracts subject to Appendix A-791 were referred to the informal Life and Health Reinsurance Drafting Group to address application questions. The Working Group directed notification to the Life Actuarial (A) Task Force.

- **Revisions to SSAP No. 68—Business Combinations and Goodwill clarify** that goodwill resulting from the acquisition of a subsidiary, controlled or affiliated (SCA) entity by an insurance reporting entity that is reported on the SCA financial statements (resulting from the application of pushdown) is subject to the 10% admittance limit based on the acquiring entity’s capital and surplus. The remainder of the agenda item was re-exposed to consider comments received on pushdown accounting and receive specific examples from interested parties.

- **Revisions clarify the recognition and measurement guidance for derivatives that do not qualify as hedging, income generation or replication transactions.**
Draft Pending Adoption

d. Revisions clarify that nonadmittance is required when there is an unalleviated substantial doubt about an SCA’s ability to continue as a going concern identified in any part of the audit report, accompanying financial statements or notes to the financial statements.

e. Revisions clarify that only wash sales that cross reporting period-end dates are subject to the wash sale disclosure.

f. Revisions clarify what should be captured in Supplemental Investment Risk Interrogatory Line 13: 10 Largest Equity Interests, noting that a look-through should only occur for non-diversified funds. The Working Group directed a Blanks (E) Working Group proposal for 2020 year-end application.

g. Revisions to Appendix A-785, Credit for Reinsurance adopted to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) related to the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (Covered Agreement).

h. Revisions reject the following Accounting Standards Updates (ASUs):

1. ASU 2019-03, Updating the Definition of Collections
2. ASU 2019-31, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made
3. ASU 2019-05, Targeted Transition Relief.
4. ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities

Mr. Bruggeman stated that the Working Group adopted the following editorial revisions to:

a. SSAP No. 62R—Property and Casualty Reinsurance: Revisions clarify wording in an existing disclosure.

b. SSAP No. 86—Derivatives: Revisions reference the definition of a structured note in SSAP No. 26R—Bonds.

c. SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities: Revisions add two new suffixes for Securities Valuation Office (SVO) filings that have been carried over from the prior year.

Mr. Bruggeman stated that the Working Group exposed a revised issue paper and a draft substantively revised SSAP No. 32—Preferred Stock as part of the Investment Classification Project to revise the definitions, measurement guidance and impairment guidance for preferred stock. He stated that SSAP No. 105—Working Capital Finance Investments was also to incorporate industry revisions to program requirements, as directed by the Working Group during the Summer National Meeting. The Working Group directed NAIC staff to draft an issue paper related to the SSAP No. 105 revisions.

Mr. Bruggeman stated that the Working Group exposed the following nonsubstantive revisions to statutory accounting guidance:

a. Revisions specify that cash pooling structures that meet specified criteria qualify as cash equivalents.

b. Revisions incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments to prevent the “rolling” of certain investments. Revisions exclude qualifying cash pools from the short-term rolling provisions.


d. Revisions reject ASU 2017-11, Accounting for Certain Financial Instruments with Down Round Features; Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Noncontrolling Interests with a Scope Exception and incorporate guidance for when certain freestanding instruments shall be recognized as liabilities, not equity.
Draft Pending Adoption

e. Revisions expand guidance regarding financial guarantees and the use of the equity method for when losses exceed
the equity value. With the revisions, the equity value of an SCA would not go negative, and guarantee liabilities would
be reported to the extent that there is a financial guarantee or commitment. The “Illustration of the Application of
INT 00-24” will be inserted into SSAP No. 97 as Exhibit F.

f. Revisions data-capture existing related party and affiliate disclosures currently completed in a narrative format.

g. Revisions clarify the types of entities that are included as related parties, that a non-controlling ownership interest
greater than 10% is a related party and subject to the related party disclosures, the guidance for disclaimers of
affiliation and control for statutory accounting; reject seven ASUs for statutory accounting and directed notification
to the Group Solvency Issues (E) Working Group. The exposure includes an intent to dispose agenda item 2011-16, a
historical item, drafted to consider the definition in SSAP No. 25—Affiliates and Other Related Parties.

h. Revisions provide enhanced surplus notes disclosures to identify when an issued surplus note’s anticipated or typical
cash flows have been partially or fully offset by a held asset.

i. Revisions eliminate the multi-step financial modeling designation guidance in determining final NAIC designations
for residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS). The Working
Group noted action would be coordinated with the Valuation of Securities (E) Task Force.

j. Revisions include footnote excerpts in the reporting exhibits to aggregate deposit-type contracts captured in Exhibit 5
– Life Contracts and an inquiry as to whether a similar footnote would be beneficial for Exhibit 6 – Accident and
Health Contracts. Additionally, feedback regarding instruction clarifications for Exhibit 7 – Deposit-Type Contracts
has been requested. With exposure, directed notification to the Financial Stability (EX) Task Force.

k. Revisions propose minor edits to the liquidity disclosures regarding withdrawal characteristics for life and deposit-
type contracts to match noted reporting clarifications.

l. Revisions expand managing general agent and third-party administrator disclosures.

m. Revisions clarify that the installment fee guidance should be narrowly applied. Comments are requested on how related
installment fee expenses should be reported, whether guidance to separately identify and reclassify installment fee
expenses to other expenses should be provided, and whether diversity should be permitted in reporting installment fee
expenses. The Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital
(E) Working Group will be notified of the exposure.

n. Revisions incorporate interested parties’ recommendations to separate the guidance by product type and emphasize
guidance that loss and loss adjusting expense liabilities are established regardless of payments to third parties (except
for capitated health claim payments). The revisions emphasize existing guidance that claims and related adjusting
liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted.

o. Comments are requested on the preferred approaches for reporting retroactive contracts that meet the exception for
prospective accounting and the disadvantages to approaches being used. Industry and state insurance regulator
volunteers are requested to assist with developing this guidance. The Working Group directed notification to the
Casualty Actuarial and Statistical (C) Task Force of the request for comments.

p. Revisions include additional NAIC staff modifications regarding persistency commission and levelized commission
arrangements to address certain comments received to allow for further discussion. With exposure, directed a referral
to the Life Actuarial (A) Task Force.

q. Revisions clarify the reporting of derivatives with financing premiums and requested comments as to whether
guidance allowing offset should be considered derivatives and related financing provisions that would not meet the
SSAP No. 64—Offsetting and Netting of Assets and Liabilities right of offset criteria.

r. Revisions clarify that the fair value of collateral received or held for derivative disclosure purposes shall be reported
net of collateral paid/pledged if a counterparty has the legal right to offset.
s. Revisions clarify that the “assignment” of goodwill is a disclosure element. The Working Group also directed revisions to the Sub-1 Acquisition Overview filing template to capture this information for new SCA acquisitions.

t. Revisions clarify that a look-through of a more than one holding company structure is permitted if each of the holding companies within the structure complies with the requirements in SSAP No. 97.


v. Revisions reject ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities.

w. Exposed the following editorial revisions to statutory accounting:

1. Update references in Exhibit A – Implementation Questions and Answers, which provides a retroactive reinsurance illustration and update, and paragraph 85 to match the current format of property/casualty (P/C) annual statement Schedule F – Reinsurance.

2. Revise references to the annual statement instructions for consistency and combine the life and fraternal references.

Mr. Bruggeman noted that the Working Group received an update on the following projects and referrals:

a. The Working Group has scheduled a conference call on Jan. 8, 2020, to discuss comments received on Ref #2019-21: SSAP No. 43R – Equity Interests.

b. NAIC staff are in the process of collecting information from a data call on “linked” surplus notes, with responses requested by Dec. 31, 2019.

c. Received an update that the Financial Accounting Standards Board (FASB) delayed implementation of ASU 2016-13: Credit Losses until 2023 for everyone except large U.S. Securities and Exchange Commission (SEC) filers, which are required to follow the ASU in 2020.


e. Received an update on current U.S. generally accepted accounting principles (GAAP) exposures, noting that no comments by the Working Group are planned.

f. Received information from the industry on recent FASB discussions. NAIC staff are closely monitoring the expected Reference Rate Reform FASB project and will review the update upon issuance.

Mr. Bruggeman stated that the comment deadline for new and exposed items is Jan. 31, 2020, except for the editorial agenda item (Ref #2019-44EP), which has a Dec. 20, 2019, comment deadline.

Mr. Bruggeman made a motion, seconded by Ms. Obusek, to adopt the report of the Statutory Accounting Principles (E) Working Group (Attachment One). The motion passed unanimously.


Mr. Garn provided the report of the Blanks (E) Working Group, which met via conference call Oct. 22 and took the following action:

a. Adopted its Sept. 5 and Aug. 20 minutes, which included:

1. An e-vote for exposure of blanks proposal 2019-24BWG. The proposal adds a life experience data contact to the electronic Jurat page for life/fraternal company filers only to allow NAIC staff and state insurance regulators to locate a contact person more easily from each legal entity life insurance company to facilitate communication regarding data studies and submissions to the NAIC.
Draft Pending Adoption

b. Adopted four blanks proposals:

1. 2019-21BWG – Modify the illustrations for Note 33 to disclose individually the separate account with guarantees products and separate account nonguaranteed products.

2. 2019-22BWG – Add a question regarding the Executive Summary of the principle-based reserving (PBR) actuarial opinion to the Supplemental Exhibits and Schedules Interrogatories.


c. Exposed its revised procedures.

d. Exposed three proposals for a public comment period ending Nov. 22.

e. Adopted the editorial listing.

f. Approved the State Filing Checklist templates.

g. Approved the posting of clarifying 2019 filing guidance for the Life Analysis of Operations by Lines of Business.

Mr. Garn made a motion, seconded by Mr. Eft, to adopt the report of the Blanks (E) Working Group (Attachment Two). The motion passed unanimously.

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.
Draft Pending Adoption
Accounting Practices and Procedures (E) Task Force
12/9/19

Attachment One

Draft: 12/16/2019

Statutory Accounting Principles (E) Working Group
Austin, TX
December 7, 2019

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Austin, TX, Dec. 7, 2019. The following Working Group members participated: Dale Bruggeman, Chair (OH); Jim Armstrong, Vice Chair, and Carrier Mears (IA); Sheila Travis (AL); Kathy Belfi and William Arfanis (CT); Rylynn Brown (DE); Eric Moser and Cindy Andersen (IL); Stewart Guerin (LA); Judy A. Weaver (MI); Tom Dudek (NY); Joe DiMemmo and Kimberly Rankin (PA); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. Adopted its Sept. 9 and Summer National Meeting Minutes

The Working Group met Sept. 9 to consider draft statutory accounting guidance for insurance and reinsurance operations reported within segregated accounts.

Ms. Walker made a motion, seconded by Ms. Malm, to adopt the Working Group’s Sept. 9 (Attachment One-A) and Aug. 3 (see NAIC Proceedings – Summer 2019, Accounting Practices and Procedures (E) Task Force, Attachment One) minutes. The motion passed unanimously.

2. Adopted Non-Contested Statutory Accounting Revisions During its Public Hearing

The Working Group held a public hearing to review comments (Attachment One-B) on previously exposed items.

Ms. Malm made a motion, seconded by Mr. Bartlett, to adopt the statutory accounting revisions detailed below as non-contested statutory accounting revisions. The motion passed unanimously.

   a. Agenda Item 2019-19

Mr. Bruggeman directed the Working Group to agenda item 2019-19: SIRI – Equity Interests. Julie Gann (NAIC) stated that during the Summer National Meeting, the Working Group exposed revisions to clarify what should be captured in the Supplemental Investment Risk Interrogatory (SIRI) Line 13: Largest Equity Interests. With the exposed revisions, a look-through to the underlying investments shall occur for non-diversified funds. However, underlying investments in diversified funds would not need to be individually assessed and aggregated in determining the top 10 largest equity interests. Ms. Gann stated that if an individual equity fund (diversified or non-diversified) was one of the top 10 largest equity interests, the fund shall be reported in the top 10 listing. Ms. Gann stated no comments were received and no statutory accounting revisions would be required, but the Working Group will sponsor a blanks proposal to update Annual Statement Instructions for year-end 2020. (Attachment One-C)

   b. Agenda Item 2019-22

Mr. Bruggeman directed the Working Group to agenda item 2019-22: Wash Sales Disclosures. Jake Stultz (NAIC) stated that this nonsubstantive agenda item clarified wash sale disclosures would only be required when applicable transactions took place over quarterly or year-end reporting periods. Wash sales occurring within a reporting period do not need to be reported. Mr. Stultz stated that interested parties were supportive of the proposal. (Attachment One-D)

   c. Agenda Item 2019-23

Mr. Bruggeman directed the Working Group to agenda item 2019-23: Going Concern. Mr. Stultz stated this nonsubstantive agenda item expands language to clarify that if an unalleviated going concern is noted in any location within an audit opinion or in the financial statements, an investment in a subsidiary, controlled and affiliated (SCA) entity shall be nonadmitted. No comments were received. (Attachment One-E)
d. **Agenda Item 2019-26**

Mr. Bruggeman directed the Working Group to agenda item 2019-26: A-785 Covered Agreements. Mr. Stultz stated that this nonsubstantive agenda item adopts language to incorporate covered agreements into Appendix A-785. Interested parties noted one paragraph reference edit was required. Mr. Stultz recommended adoption with the editorial change as requested by interested parties. (Attachment One-F)

e. **Agenda Item 2019-27EP**

Mr. Bruggeman directed the Working Group to agenda item 2019-27EP: Editorial Updates. Mr. Stultz stated this nonsubstantive agenda item covered three editorial revisions exposed from the Summer National Meeting and that no comments were received. (Attachment One-G)

f. **Agenda Item 2019-28**

Mr. Bruggeman directed the Working Group to agenda item 2019-28: *Accounting Standards Update (ASU) 2019-05, Targeted Transition Relief*. Jim Pinegar (NAIC) stated this nonsubstantive agenda item provides an alternative accounting treatment for certain financial assets previously held at amortized cost. He advised the ASU was proposed for rejection as it allows alternative measurements methods, which are not permitted in the applicable investment Statements of Statutory Accounting Principles (SSAPs). Interested parties’ comments supported the proposed action. (Attachment One-H)

g. **Agenda Item 2019-29**

Mr. Bruggeman directed the Working Group to agenda item 2019-29: *ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. Mr. Pinegar stated that this ASU extends goodwill alternatives currently allowed for private companies to not-for-profit entities, in that either an impairment only or amortization method is permitted. This nonsubstantive agenda item proposes to reject the ASU as it allows optionality in goodwill accounting. Interested parties’ comments supported the proposed revisions. (Attachment One-I)

3. **Adopted Revisions to Reject U.S. GAAP as Not Applicable to Statutory Accounting**

Ms. Walker made a motion, seconded by Mr. Dudek, to revise *Appendix D—Nonapplicable GAAP Pronouncements* to reject the following U.S. generally accepted accounting principles (GAAP) ASUs as not applicable. The motion passed unanimously.

- *ASU 2019-03, Updating the Definitions of Collections* (Agenda Item 2019-30 – Attachment One-J)
- *ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* (Agenda Item 2019-31 – Attachment One-K)

4. **Reviewed Comments and Considered Action on Exposed Items with Minimal Discussion**

The Working Group held a public hearing to review comments (Attachment One-B) on previously exposed items.

a. **Agenda Item 2018-26**

Mr. Bruggeman directed the Working Group to agenda item 2018-26: SCA Loss Tracking – Accounting Guidance. Ms. Gann stated that during the Summer National Meeting, the Working Group exposed nonsubstantive revisions to update the existing financial reporting requirements when a reporting entity has a negative equity value in an SCA investment and the reporting entity has provided a financial guarantee or commitment. She stated that with the last exposure, the SCA investment would be reported at zero on the investment schedule, and the financial guarantee or commitment would be recognized as a liability pursuant to *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*. Ms. Gann stated that NAIC staff support the comments received and believe the Working Group could consider adoption of the guidance, as revised by the interested parties’ comments. However, she stated that since the change would result in a distinct change from current reporting guidance and it is close to year-end, NAIC staff were recommending exposure of the proposed guidance to ensure adequate time to review the revisions and incorporate system changes. Additionally, she noted that the intent was to incorporate a new exhibit into *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* to pull in guidance from an existing statutory accounting
Ms. Walker made a motion, seconded by Ms. Mears, to expose the nonsubstantive revisions to SSAP No. 5R and SSAP No. 97 to revise the reporting guidance for SCAs that have a negative equity value when there is a reporting entity financial guarantee or commitment, as modified from the interested parties’ comments, along with the proposed SSAP No. 97, Exhibit F, for a public comment period. The motion passed unanimously.

b. **Agenda Item 2019-04**

Mr. Bruggeman directed the Working Group to agenda item 2019-04: SSAP No. 32 – Investment Classification Project. Ms. Gann stated that during the Summer National Meeting, the Working Group exposed an issue paper to revise the definitions, measurement and impairment guidance for SSAP No. 32—Preferred Stock, pursuant to the investment classification project. She stated that most of the comments received had been reflected in a revised issue paper, with the key exception proposed modifications from the U.S. GAAP definitions for redeemable and perpetual preferred stock. Although NAIC staff agree that some aspects of the definitions primarily reflect the perspective of the issuer (e.g., whether redemption is within control of the issuer), these characteristics should be considered by the holder in properly classifying preferred stock as redeemable or perpetual. She stated that NAIC staff support retaining consistency between U.S. GAAP and statutory accounting principle (SAP) definitions.

Resh Reese (Teachers Insurance and Annuity Association of America—TIAA), representing interested parties, stated support for the consideration of submitted comments and will review the revised issue paper and draft SSAP during the exposure period.

Ms. Brown made a motion, seconded by Mr. Bartlett, to expose the revised issue paper and substantively revised SSAP No. 32 for a public comment period. The motion passed unanimously.

c. **Agenda Item 2019-08**

Mr. Bruggeman directed the Working Group to agenda item 2019-08: Reporting Deposit Type Contracts. Ms. Gann stated that this nonsubstantive agenda item originated to gather information on deposit-type contracts that were being reported in the annual statement exhibits as life (Exhibit 5) or accident and health (A&H) (Exhibit 6) contracts. She stated that the long-standing practice is to classify and report contracts at policy inception. As a significant redesign of classifying insurance contracts is not supported, a footnote excerpt is proposed to detail amounts reported as life contracts that no longer have an associated mortality or morbidity risk. The exposure proposes the footnote for exhibit 5 and requests feedback if a similar footnote is needed for Exhibit 6. Finally, state insurance regulator and industry feedback is requested regarding the Annual Statement Instructions for classifying deposit-type contracts in Exhibit 7.

Mr. Bruggeman stated NAIC staff conferred with the Financial Stability (EX) Task Force staff to ensure the proposal would address the current concerns on aggregating contracts without mortality or morbidity risks for liquidity analysis. He also stated that in response to interested party comments, the intent of collecting this information was to identify the amount based on risk type. This is different from the degree of risk as referenced in the interested parties’ comments. John Bauer (Prudential), representing interested parties, stated agreement with the suggested recommendation and noted that interested parties will provide additional information as requested with the proposed exposure.

Ms. Walker made a motion, seconded by Ms. Weaver, to expose the nonsubstantive agenda item with the proposed footnote to Exhibit 5 and the inquiries for additional information regarding Exhibit 6 and Exhibit 7 for a public comment period. The motion passed unanimously. The Working Group directed NAIC staff to notify the Financial Stability (EX) Task Force of the exposure.

d. **Agenda Item 2019-18**

Mr. Bruggeman directed the Working Group to agenda item 2019-18: Other Derivatives. Ms. Gann stated that this nonsubstantive agenda item was re-exposed at the Summer National meeting in response to interested parties’ comments requesting more time to evaluate investments to determine if there would be unintended consequences with the proposed
accounting guidance. She stated that the proposed revisions clarify the accounting guidance in *SSAP No. 86—Derivatives* when a derivative is not part of a hedging, an income generation or an asset replication transaction. Ms. Gann stated that the exposed revisions clarify that other derivatives shall be reported at fair value and nonadmitted. Ms. Gann stated that the nonadmitted classification is consistent with the current guidance applicable pursuant to *SSAP No. 4—Assets and Nonadmitted Assets*, as other derivatives are not currently identified as admitted assets. As the exposed language is a clarification of existing guidance, adoption for year-end 2019 was recommended.

Mr. Bruggeman stated statutory accounting guidance does not override state investment code and does not preclude a permitted or prescribed practice. Joshua Bean (Transamerica), representing the American Council of Life Insurers (ACLI), stated that in conjunction with the North American Securities Valuation Association (NASVA), the ACLI has submitted a comment letter to the Capital Adequacy (E) Task Force in response to the referral sent from the Working Group to the Task Force pertaining to this item. He advised that their comment letter requested that risk-based capital (RBC) charges not be imposed on structured notes reported as other derivatives and nonadmitted.

Ms. Brown made a motion, seconded by Ms. Mears, to adopt the exposed nonsubstantive revisions to SSAP No. 86 (Attachment One-L) for a public comment period. The motion passed unanimously.

5. **Reviewed Comments and Considered Action on Exposed Items**

The Working Group held a public hearing to review comments (Attachment One-B) on previously exposed items.

a. **Agenda Item 2017-28**

Mr. Bruggeman directed the Working Group to agenda item 2017-28: Reinsurance Credit – Informal Life and Health Reinsurance Drafting Group Recommendations. Robin Marcotte (NAIC) stated that during the Summer National Meeting, the Working Group exposed for comment four items that were recommended by the informal life and health reinsurance drafting group, including *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* disclosures and three A-791 Life and Health Insurance Question and Answers. Ms. Marcotte recommended that the Working Group adopt the nonsubstantive SSAP No. 61R disclosures with paragraph number updates with an initial effective date of Dec. 31, 2020. She noted that the disclosures were originally requested by the Financial Analysis (E) Working Group. Ms. Marcotte also recommended that the Working Group adopt the new A-791 question and answer (Q&A) item regarding contracts with medical loss ratios (MLRs).

Ms. Marcotte then recommended that the Working Group adopt the A-791 Q&A revisions regarding paragraph 2c with the addition of applying to contracts in effect Jan. 1, 2021. She stated that after discussion with industry representatives, their comments are supportive of the adoption of the exposed Q&A for A-791, question 2c. She noted that these revisions would prevent risk transfer for group term yearly renewable term (YRT) contracts, which have risk-limiting features when the reinsurance contract premium exceeds the underlying direct premium. She stated that the interested parties’ recommendation was that this Q&A have a Jan. 1, 2021, effective date. She stated that while some of the informal state insurance regulator comments received by NAIC staff note that they are not in full agreement with the industry provided comments on other non-group YRT contracts, there is agreement on the item exposed and that the exposed language is specific to the described contracts. She noted that NAIC staff also recommend that the Working Group send a notification to the Life Actuarial (A) Task Force as part of its YRT project.

Ms. Marcotte recommended that the Working Group refer to the informal life and health reinsurance drafting group the exposed revisions to the A-791 Q&A update to clarify the phrase “certain non-proportional contracts” to address informal questions received by NAIC staff regarding: 1) the application of the exposed language regarding measurement period and settlement period, and 2) the application of substantially less likely than not. She stated that based on informal input from various drafting group members, more discussion is needed regarding this Q&A item, and she believes that this is an issue that the drafting group can lend some useful expertise. She noted that a few of the technical members did not fully agree on the application of certain wording.

Mr. Bruggeman noted that the Life Actuarial (A) Task Force is continuing its work on the reinsurance credit that a YRT contract can generate under principle-based reserving (PBR) and that a notification would be beneficial.
Steve Clayburn (ACLI) stated support for a Jan. 1, 2021, effective date of the paragraph 2c A-791 QA.

Mr. Stolte made a motion, seconded by Ms. Travis, to: 1) adopt the SSAP No. 61R disclosures with a year-end 2020 effective date; 2) adopt the A-791 Q&A on products subject to MLRs; 3) adopt the A-791 Q&A on paragraph 2c regarding group term life YRT contracts with an effective date of Jan. 1, 2021; and 4) refer the initial A-791 Q&A on the phrases “certain non-proportional contracts” back to the informal drafting group (Attachment One-M). The motion passed unanimously.

b. **Agenda Item 2018-38**

Mr. Bruggeman directed the Working Group to agenda item 2018-38: Prepaid Providers. Ms. Marcotte stated that this nonsubstantive agenda item was exposed during the Summer National Meeting with revisions to emphasize existing guidance that unpaid loss and loss adjusting expense (LAE) liabilities are established regardless of payments to third parties. She stated industry comments suggested separating guidance by product type.

Tom Finnell (America’s Health Insurance Plans—AHIP) stated support for the Working Group’s continued work on this topic and said he looks forward to providing additional feedback as a result of this exposure.

Ms. Malm made a motion, seconded by Ms. Walker, to expose agenda item 2018-38 with revisions to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses incorporating a majority of interested parties’ comments for a public comment period. The motion passed unanimously.

c. **Agenda Item 2019-12**

Mr. Bruggeman directed the Working Group to agenda item 2019-12: ASU 2014-17, Business Combinations, Pushdown Accounting. Ms. Gann stated this nonsubstantive agenda item was exposed at the Summer National Meeting with three options presented for Working Group consideration: 1) full rejection of pushdown accounting; 2) allowing pushdown for non-insurance SCAs; or 3) allowing pushdown for non-insurance U.S. Securities and Exchange Commission (SEC) registrants. She stated that interested parties have requested additional time in order to provide specific examples for consideration. Ms. Gann stated that while re-exposure is recommended, a nonsubstantive revision for year-end 2019 was proposed to clarify in SSAP No. 68—Business Combinations and Goodwill that admitted goodwill is limited to 10% of the acquiring entity’s adjusted capital and surplus, regardless if pushdown was used. She stated that the proposed edit is specific to SCAs acquired directly by an insurance reporting entity. Ms. Gann stated that in order to prevent questions on whether the proposed edit will require amortization of goodwill pushed down to U.S. GAAP SCAs (instead of the U.S. GAAP impairment test), a proposal to separate the existing paragraph 9 into two separate paragraphs was suggested.

Ms. Brown stated support for the proposed edit to clarify the statutory admitted goodwill limitation. She asked whether additional disclosures will be presented to capture supplemental information on the use of pushdown in the statutory financial statements. Ms. Gann stated that a new agenda item is planned to capture additional goodwill disclosures and the use of pushdown as insurance reporting entities do not appear to currently be including this information in the statutory financial statements. Mr. Bruggeman asked whether the proposed edit to clarify the 10% admittance limitation should be effective immediately or for year-end 2020. Mr. Stolte and Mr. Smith responded for an immediate effective date.

Ms. Reese stated appreciation for the clarification of the history of goodwill and the assessment of nonsubstantive changes provided in the agenda and indicated that the TIAA would be involved in the continued pushdown discussion.

Keith Bell (The Travelers Companies) requested clarification of the Working Group direction regarding pushdown disclosures. He stated that there are concerns with pushdown disclosures as entities have pushed down goodwill on a U.S. GAAP basis, not a statutory accounting basis. Ms. Gann stated that the existing guidance in SSAP No. 68, paragraph 4 provides the calculation of goodwill and explicitly encompasses acquired SCAs reported on the basis of the audited U.S. GAAP equity of the investee (entities captured under paragraph 8.b.iii of SSAP No. 97.) Ms. Gann stated that the calculation of goodwill is different between U.S. GAAP and SAP, and if goodwill was pushed down on the basis of the U.S. GAAP calculation, it would seem that the existing guidance in SSAP No. 68 was not followed. Mr. Bell stated that in order to obtain a clean audit opinion for an SCA, pushdown may have been required on a U.S. GAAP basis and asked if the requested disclosures would only apply to U.S. GAAP SCAs. Mr. Bruggeman stated anticipated disclosures would detail the amount of goodwill pushed down if a reporting
entity directly purchased an SCA. He stated that the disclosures would likely include only SCAs reported on the basis of U.S. GAAP equity and requested feedback when the agenda item is exposed.

Ms. Brown made a motion, seconded by Mr. Stolte, to adopt the clarification edit indicating that goodwill from an insurance reporting entity’s acquisition of an SCA that is pushed down and reported on the SCA’s financial statements is subject to the 10% admittance limitation as a nonsubstantive change effective for year-end 2019, and to separate SSAP No. 68, paragraph 9 into two paragraphs. This motion also included re-exposure of agenda item 2019-12 with a request for comments on the three options for future consideration of pushdown and the request of explicit examples on the historical use of pushdown. The motion passed unanimously (Attachment One-N). The Working Group also directed NAIC staff to develop a new agenda item to capture statutory accounting disclosures on the use of pushdown and other goodwill/intangible asset items.

d. Agenda Item 2019-14

Mr. Bruggeman directed the Working Group to agenda item 2019-14: Attribution of Goodwill. Ms. Gann stated this nonsubstantive agenda item is a disclosure item when a reporting entity purchases a holding company, and the holding company owns multiple entities, goodwill shall be allocated/assigned to each entity at the time of purchase. She stated that comments received from interested parties on this item were combined with the comments received for agenda item 2019-12 and requested additional time for assessment. Ms. Gann stated that although this agenda item is strictly a disclosure item and is not planned for data-capture, it may be difficult to compile the disclosure information for year-end 2019 reporting. As such, re-exposure could occur to provide additional time for comments and still allow for disclosures to be adopted for year-end 2020. Ms. Gann suggested that the Working Group direct NAIC staff to revise the Sub-1 SCA filing template to capture this information beginning with Sub-1 submissions in 2020.

Ms. Walker made a motion, seconded by Mr. Dudek, to re-expose agenda item 2019-14 and directed NAIC staff to revise the Sub-1 filing template to capture this information for new SCA acquisitions. The motion passed unanimously.

e. Agenda Item 2019-20

Mr. Bruggeman directed the Working Group to agenda item 2019-20: Rolling Short-Term Investments. Ms. Gann stated that this nonsubstantive agenda item was originally exposed during the Summer National Meeting to address certain investments that were structured to mature at or around 364 days in order to be classified as short-term investments, with those investments being rolled or renewed. She stated that the definition of a cash equivalent is an investment, that when acquired, has a remaining maturity of three months or less, while a short-term investment, when acquired, has a remaining maturity of one year or less. Ms. Gann stated that while investments default to a long-term reporting schedule, if they meet the maturity date parameters at acquisition, they are reported as cash equivalents or short-term investments. She stated that examples have risen where entities purchase affiliated investments that are scheduled to mature within one year. However, the investments continuously roll or have the expectation of being renewed or rolled with recurring short-term maturity dates. Under existing statutory accounting guidance, these investments are continuously reported as short-term investments, and this reporting results with favorable RBC charges and avoids other requirements imposed on long-term investments, including the requirement to obtain an NAIC designation.

Ms. Gann stated this agenda item proposes that if a short-term investment is expected to renew, it shall be reported as a long-term investment. Further, if a short-term investment is renewed or rolled, upon subsequent renewal, it shall be reported as a long-term investment, in effect acting as a tainting rule to prevent continuous reporting as a short-term investment. Ms. Gann stated that comments from interested parties expressed concerns that cash pooling arrangements were not excluded from the exposed short-term rolling guidance. She stated cash pools were not originally excluded as they are not currently addressed in SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments. However, from information received, entities have been reporting pooling arrangements as cash equivalents. She stated NAIC staff recommend exposure of this agenda item with revisions to exclude qualifying cash pooling arrangements as defined in agenda item 2019-42 from the rolling short-term guidance and to request industry and state insurance regulator feedback on other investments that should be considered in scope of the short-term rolling guidance, or excluded from the guidance and permitted to be continuously reported as short-term. In response to comments received on other investments, Ms. Gann stated NAIC staff do not recommend expanding exemptions for affiliate loans or collateral loans and noted that collateral loans already receive favorable RBC charges under their designation reporting line on Schedule BA – Other Long-Term Invested Assets. She also indicated that using re-underwriting
provisions as a threshold for continuous short-term reporting may be difficult for state insurance regulators and auditors to assess.

Lyle Rudin (State Farm), representing interested parties, stated support for the cash pool exemption from the proposed short-term rolling guidance and stated that it will review the qualifying conditions for cash pools in that exposure.

Ms. Belfi made a motion, seconded by Ms. Weaver, to expose agenda item 2019-20 with the revisions to exclude qualifying cash pools from the short-term rolling restrictions and to request comments on other investments that should be considered within or excluded from the short-term rolling restrictions for a public comment period. The motion passed unanimously.

f. Agenda Item 2019-24

Mr. Bruggeman directed the Working Group to agenda item 2019-24: Levelized and Persistency Commission. Ms. Marcotte stated that during the Summer National Meeting, the Working Group exposed nonsubstantive revisions to SSAP No. 71—Policy Acquisition Costs and Commissions to clarify the existing levelized commissions guidance and provide additional guidance regarding commissions based on policy persistency. She stated that the exposed recommendations were intended to be consistent with the original intent of SSAP No. 71, as well as the Statutory Statement of Concept on Recognition, which states that liabilities require recognition as they are incurred and accounting treatments, which tend to defer expense recognition, do not generally represent acceptable SAP treatment. Ms. Marcotte noted that three comment letters were received from the original exposure. For the current Fall National Meeting, Ms. Marcotte recommended that the Working Group expose the agenda item with additional NAIC staff modifications regarding persistency and levelized commission guidance to allow for further discussion. She stated that the intent of the additional revisions was to focus on levelized commission arrangements, particularly those that are currently being miscategorized.

In response to comments received about the intent of the guidance, Ms. Marcotte stated that Issue Paper No. 71—Policy Acquisition Costs and Commissions, paragraph 10, identifies the pre-codification statutory accounting guidance, which is the basis for the existing SSAP No. 71 guidance. She stated that the pre-codification guidance quoted in the 1996 issue paper also notes the same concerns regarding reporting entities’ use of levelized commission arrangements, which operate as funding agreements. She stated that the referenced paragraph provides that, “The accounting treatment for certain transactions, characterized as levelized commissions, which results in enhancement of surplus, has been determined to be inappropriate for statutory reporting.” She stated that the intent of SSAP No. 71 for levelized commissions is that repayment of a funding advance, even if it has been labeled as a commission, requires the establishment of a liability for the full amount of unpaid principal and accrued interest.

Ms. Marcotte noted that additional edits proposed for exposure attempts to address some of the industry concerns on traditional persistency commissions. She stated that one of the challenges is trying to make a distinction between a true persistency commission and the use of a levelized commission arrangement that functions as a funding agreement as described in SSAP No. 71. She noted that it is more difficult because some of the identified funding agreements are calling the repayment a persistency commission. She stated that the intent of the exposed guidance was not to change the annual accrual of normal persistency commission, but rather to require accrual of levelized commission arrangements, which are being termed persistency. Some of the proposed edits remove previously exposed revisions and add clarifying phrases regarding persistency commission accrual, with the addition of clarifying phrases to assist with identifying levelized commission funding agreements and redrafting of the footnote to remove double negative wording.

Ms. Marcotte stated that the levelized commission arrangements described to NAIC staff had a third-party (“super-agent”) paying agents upfront, which represents a large commission similar to normal initial sales commission policy acquisition costs for business directly written on behalf of the reporting entity in the year of policy issuance. She stated that repayment to the third party by the reporting entity was expected, but not necessarily guaranteed, and was over a period of years. She stated that consistent with the guidance in SSAP No. 71, paragraph 4, the levelized commission arrangement was repaying the super-agent amounts “which are less than the normal first-year commissions but exceed the normal renewal commissions.”

Marty Carus (Marty Carus Consulting) noted that they looked forward to reviewing the updated revisions during the exposure. He stated that a significant segment of the industry views the change as substantive and that the revisions affect a wide range of products. He said the Working Group should take this into account when reviewing this item. He stated that the NAIC staff comments noted preliminary discussion with the Life Actuarial (A) Task Force staff regarding the industry comments about
PBR methodology, and he recommended additional dialogue with the Task Force on this aspect. Ms. Marcotte stated that the PBR methodology takes commission into account when projecting future cash flows. However, per discussion with the Task Force staff, the projected future cash flows would not be double-counted if there is an existing liability. She requested if there is specific *Valuation Manual* language in VM-20, Requirements for Principle-Based Reserves for Life Products, and VM 21, Requirements for Principle-Based Reserves for Variable Annuities, that needs to be addressed in the coordination process, to provide specific concerns. Mr. Bruggeman noted that his understanding is that PBR takes into account future commissions when determining the present value of future cash flows, but would not set up an additional liability if there is an existing liability. Mr. Bruggeman noted that it would be beneficial to notify the Life Actuarial (A) Task Force of the exposure.

Lynn Kelley (Delaware Life), representing interested parties, stated support for the consideration of their comments and the additional exposure to allow time for discussion to distinguish between levelized commission arrangements and other commission arrangements.

Ms. Walker made a motion, seconded by Ms. Travis, to expose nonsubstantive revisions to SSAP No. 71, modified from the prior exposure as discussed during the meeting, regarding levelized commissions for a public comment period and to notify the Life Actuarial (A) Task Force of the exposure. The motion passed unanimously.

6. **Considered Maintenance Agenda—Pending Listing—Exposures**

Mr. Dudek made a motion, seconded by Ms. Mears to move agenda items 2019-32 through 2019-49 to the active listing, and expose all items for a public comment period, with distinction of each item as either substantive or nonsubstantive, and with corresponding referrals as recommended by NAIC staff. The motion passed unanimously.

a. **Agenda Item 2019-32**

Mr. Bruggeman directed the Working Group to agenda item 2019-32: Look-Through with Multiple Holding Companies. Ms. Gann stated that this nonsubstantive agenda item was drafted from Working Group direction at the Summer National Meeting. Ms. Gann stated that it was agreed that multiple holding companies in a structure could be looked-through if each holding company qualifies with the look-through requirements in SSAP No. 97. With this conclusion from the Summer National Meeting, interested parties had requested that this be clarified within the SAP guidance.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

b. **Agenda Item 2019-33**

Mr. Bruggeman directed the Working Group to agenda item 2019-33: SSAP No. 25 – Disclosures. Ms. Gann stated that this nonsubstantive agenda item has been drafted to data-capture disclosures from *SSAP No. 25—Affiliates and Other Related Parties*. She noted that disclosures from SSAP No. 25 are currently completed in a narrative (portable document format [PDF]) format. With the proposal to data-capture disclosures, state insurance regulators can aggregate and query party relationships. She noted that there are items that are proposed to be data-captured that are not explicitly included in the narrative description but are presumed to be currently captured in the existing general references for “information considered necessary to obtaining an understanding of the effects of the transactions on the financial statements.” She stated that all of these instances are specifically noted in the agenda item. Ms. Gann stated that this item is separate from agenda item Ref #2019-34, which is considering revisions to clarify what is captured in SSAP No. 25, in order to follow a separate workstream to allow for year-end 2020 data-capturing. If the revisions being considered under the separate agenda item are adopted by June 2020, then those disclosures may modify or expand the data templates proposed in this agenda item.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

c. **Agenda Item 2019-34**

Mr. Bruggeman directed the Working Group to agenda item 2019-34: Related Parties, Disclaimer of Affiliation and Variable Interest Entities. Mr. Stultz stated that the intent of this nonsubstantive agenda item is to clarify identification of related parties and affiliates in SSAP No. 25 and to incorporate new disclosures to ensure state insurance regulators have a full picture of complicated business structures. He noted that this agenda item intends to have the related party and affiliate reporting more
closely match that of SEC filings, and this will be done by adding language from SEC guidance and by clarifying the disclaimer of affiliation or control from a statutory reporting standpoint. He noted that the proposed revisions intend to address the following key aspects: 1) clarify the identification of related parties and ensure that any related party identified under U.S. GAAP or SEC reporting requirements would be considered a related party under statutory accounting principles; 2) clarify that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation; 3) clarify the impact of a disclaimer of control or disclaimer of affiliate under SAP. He stated that disclaimers of control or affiliation may affect holding company group allocation or reporting as an SCA under SSAP No. 97, but do not eliminate the classification as a “related party” and the disclosure of material transactions as required under SSAP No. 25; and 4) propose rejection of several Financial Accounting Standards Board (FASB) ASUs related to Variable Interest Entities (VIE) and Consolidation (FASB Codification Topic 810). Mr. Stultz stated the concept of consolidation has been rejected for statutory accounting. As such, the main concepts included in the FASB ASUs discussed in this agenda item are proposed to be rejected for statutory accounting. While this agenda item is not intended to change the concept of consolidation for statutory accounting, Mr. Stultz noted that there is a need and justification for enhanced disclosures to supplement the reporting process of related parties and affiliates within a company structure. Mr. Stultz noted that the requirements for the SEC filings do not allow for a disclaimer of affiliation, as is allowed in the Insurance Holding Company System Regulatory Act and the Insurance Holding Company System Model Regulation with Reporting Forms and Instructions included in Appendix A-440.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

d. **Agenda Item 2019-35**

Mr. Bruggeman directed the Working Group to agenda item 2019-35: Update Withdrawal Disclosures. Ms. Marcotte stated that the Working Group updated the life, health and separate account liquidity disclosures to provide more granularity of the withdrawal characteristics by product type. These updates were developed by the Financial Stability (EX) Task Force and were adopted in agenda item 2018-28: Updates to Liquidity Disclosures, with an effective date of year-end 2019. Ms. Marcotte stated that this nonsubstantive agenda item proposes minor clarifying edits to the disclosures identified subsequent to the adoption of the related 2019 annual statement blanks proposal. She stated that revisions are proposed as follows: 1) add a consistency revision to SSAP No. 51R—Life Contracts to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures; 2) correct an identified inconsistency in one of the new disclosures that was added regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%. A clarification is being recommended to ensure consistency in annual statement reporting; and 3) add a cross reference from SSAP No. 56—Separate Accounts to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R as the disclosures include separate account products.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

e. **Agenda Item 2019-36**

Mr. Bruggeman directed the Working Group to agenda item 2019-36: Expanded MGA and TPA Disclosures. Ms. Marcotte stated that this nonsubstantive agenda item was drafted pursuant to a request from two states that the existing annual statement disclosure regarding managing general agents or third-party administrators (TPAs) be expanded to include additional information. She stated that state insurance regulators and policyholders should be able to fully understand the level and extent that core services and binding authority are provided by managing general agents (MGA) and TPAs. The state sponsors have advocated that this understanding would also help in the assessment of the enterprise risk management (ERM) framework, Own Risk Solvency Assessment (ORSA) report, market analysis reviews, operational risks, group analysis, and recovery and resolution considerations. Ms. Marcotte noted that the enhanced disclosure would list any MGA and TPA and the respective core service(s) provided to the insurer or authority granted by the insurer. Additionally, the affiliated, related party or unaffiliated relationship would be disclosed, along with whether the entity is independently audited and/or bonded.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.
f. Agenda Item 2019-37

Mr. Bruggeman directed the Working Group to agenda item 2019-37: Surplus Notes – Enhanced Disclosures. Mr. Pinegar stated this nonsubstantive agenda item was drafted from the Working Group’s request that additional disclosures be captured in SSAP No. 41R—Surplus Notes. He stated the disclosure reflects items detailed in the current surplus note data call. While numerous disclosures are proposed, key concepts relate to the cashflows (or lack thereof) between the surplus note issuer and holder, related party identification, descriptions of the types and fair value of the assets received, and information regarding the third-party financial guarantor, which is commonly referred to a source of liquidity for the surplus note issuer.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

g. Agenda Item 2019-38

Mr. Bruggeman directed the Working Group to agenda item 2019-38: Financing Derivatives. Ms. Gann stated this topic was discussed a few years ago. However, after reviewing the year-end 2018 financial statements, the issue is being reintroduced as a nonsubstantive revision to clarify the reporting of derivatives with financing components on derivative schedules DB-A and DB-B. NAIC staff stated that financing derivatives represent situations where the premium due as a result of acquiring or writing a derivative is paid throughout the derivative term or at maturity. She stated that the agenda item proposes the elimination of the allowance of net reporting, with a requirement for gross reporting for derivatives purchased or sold. Ms. Gann said that the current process to net the derivative asset and premium due generally results in a net zero-value at inception, which does not present a clear picture on derivative activity in the statutory financial statements. Ms. Gann stated that the original discussion on this item focused on acquired financed derivatives. However, from the review of the 2018 financial statements, it was identified that reporting entities also use financing components in the writing of derivatives. She stated that the proposed revisions to SSAP No. 86 would require gross reporting of derivatives, without the effect of financing premiums due or payable and would present the true financial asset and liability position associated with the use of derivatives. She noted that proposed concepts included in the agenda item suggest revisions to the RBC calculations so that the premium due can be considered similar to derivative collateral. If the statutory accounting revisions are supported, a future referral would be considered to the Capital Adequacy (E) Task Force for consideration of these RBC changes.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

h. Agenda Item 2019-39

Mr. Bruggeman directed the Working Group to agenda item 2019-39: Acceptable Collateral for Derivatives. Mr. Pinegar stated that a potential misinterpretation exists in the annual statement instructions regarding the reporting of collateral for derivatives. Currently, the instructions indicate reporting “net positive variation margin,” which by definition only reflects collateral flows due to daily changes in market values. He stated that an additional type of margin should be considered—i.e., initial margin, which reflects the original collateral given to initiate a position. SSAP No. 86 refers to disclosures of “net assets held,” which infers a totality of assets. Mr. Pinegar stated this nonsubstantive agenda item is to clarify that collateral held reflects both initial and variation margin.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

i. Agenda Item 2019-40

Mr. Bruggeman directed the Working Group to agenda item 2019-40: Reporting of Installment Fees and Expenses. Ms. Marcotte noted that SSAP No. 53—Property Casualty Contracts—Premiums, paragraph 6, provides specific guidance that allows for installment fees that meet specified criteria to be excluded from premium and reported as other income. She stated that an installment fee is the amount policyholders pay if they make the choice to pay their premium on an installment basis and that the fee is allowed to be excluded from premium income if it is an avoidable amount by the policyholders and the policy would not be cancelled for nonpayment of the installment fee.

Ms. Marcotte stated that NAIC staff have received state insurance regulator-requested clarifications regarding potential diversity in the application of the SSAP No. 53 installment fee guidance. She stated that the recommendation in the nonsubstantive agenda item is to expose revisions to SSAP No. 53 and request comments. She stated that the revisions note
that the installment fee and services charges guidance should be applied narrowly to the specific situation described and not
analogized to exclude other fees from written premium. Ms. Marcotte stated that in addition, notification of the exposure to the
Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk Based Capital (E) Working Group was
recommended. She stated that the questions for exposure are as follows:

- Should the Working Group develop guidance to allow reporting of installment fee expenses associated with fees that
are reported in other income according to the criteria in SSAP No. 53, be categorized as an expense in “Other Income”?

- If included in “Other Income,” there is no line to report “other expenses” in the annual statement blank. Therefore,
should the expense be classified as a contra revenue in or an “Aggregate Write-Ins for Miscellaneous Income”?

- Installment fees and expenses are often immaterial for property/casualty (P/C) except for nonstandard writers. Should
diversity be allowed in reporting installment fee expenses (that is optional to report as other expense category of contra
other revenue “Aggregate Write-Ins for Miscellaneous Income”), particularly for immaterial amounts?

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure with the request for comments on the noted
questions and with notifying the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk Based
Capital (E) Working Group of the exposure.

j. Agenda Item 2019-41

Mr. Bruggeman directed the Working Group to agenda item 2019-41: SSAP No. 43R – Financial Modeling. Mr. Pinegar stated
the current residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) multi-step
modeling practice is the only remaining approach that uses breakpoints to determine final NAIC designations. During the
Spring National Meeting, the Working Group adopted modifications to eliminate reference to multi-step modeling for modified
filing exempt (MFE) securities. He stated this nonsubstantive agenda item was in conjunction with an expected proposal from
the Valuation of Securities (E) Task Force, in which it is also proposing to eliminate multi-step modeling. Mr. Pinegar stated
exposure is contingent upon the Task Force exposure and that final action will not occur on this agenda item until the Task
Force adopts elimination of the multi-step modeling. Mr. Bruggeman stated that this agenda item was proposed to remain
current with the Task Force and that the exposure of this agenda item will be removed from the exposure listing if the Task
Force does not expose its corresponding agenda item.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

k. Agenda Item 2019-42

Mr. Bruggeman directed the Working Group to agenda item 2019-42: Cash Equivalent – Cash & Liquidity Pools. Mr. Pinegar
stated this nonsubstantive agenda item arose as a result of the short-term rolling agenda item (Ref #2019-20), in which interested
parties commented that cash pools were not appropriately scoped out of the proposed short-term restriction guidance. He stated
cash pools are techniques in which affiliates combine excess cash in order to earn additional interest, access additional short-
term investment markets and improve liquidity management. Mr. Pinegar stated that this agenda item proposes to allow cash
pools that meet certain requirements to be reported as cash equivalents. He stated several safeguards were proposed, including
restrictions related to investments, liquidity requirements and the disallowance of notional pooling where one participant can
cover the expenses of another.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

l. Agenda Item 2019-43

Mr. Bruggeman directed the Working Group to agenda item 2019-43: ASU 2017-11, Earning Per Share, Distinguishing
Liabilities from Equity, Derivatives & Hedging. Mr. Pinegar stated this ASU primarily details accounting guidance for financial
instruments with “down round” features. A down round feature is a provision in certain financial instruments that allows for a
reduction in an option’s strike price in certain situations. He stated that as a result of this ASU, down round features are allowed
to be considered indexed to stock in which the value of the instrument is reclassified from a liability to equity. Mr. Pinegar
stated that this specific guidance is proposed for rejection. However, the nonsubstantive agenda item proposes language for
Draft Pending Adoption
Attachment One
Accounting Practices and Procedures (E) Task Force
12/9/19

SSAP No. 5R and SSAP No. 72—Surplus and Quasi-Reorganizations to reflect that freestanding financial instruments with characteristics of both liability and equity shall be reported as a liability to the extent the instrument embodies an unconditional obligation of the issuer. Mr. Pinegar stated that while this language is new for these particular SSAPs, the liability versus equity concept is not new to statutory accounting. He stated that the concepts are materially consistent with guidance that currently exists in Exhibit A in SSAP No. 104R—Share-Based Payments.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

m. Agenda Item 2019-44EP

Mr. Bruggeman directed the Working Group to agenda item 2019-44EP: Editorial Updates. Ms. Marcotte stated that this nonsubstantive agenda item proposes editorial revisions to update paragraph references for SSAP No. 62R—Property and Casualty Reinsurance and update references to the Annual Statement Instructions to reflect proper titles. In order to ensure revisions are in the 2020 Accounting Practices and Procedures Manual (AP&P Manual), a shortened exposure period was suggested ending Dec. 20.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

n. Agenda Item 2019-45

Mr. Bruggeman directed the Working Group to agenda item 2019-45: ASU 2013-11, Income Taxes — Presentation of Unrecognized Tax Benefits. Mr. Pinegar stated this ASU addressed the financial statement presentation of unrecognized tax benefits. An unrecognized tax benefit represents a tax position that does not meet the more-likely-than-not recognition threshold and in essence is a tax deduction that has a less than 50% likelihood of being used or upheld. He stated that this nonsubstantive agenda item proposes to reject the ASU as items having less than a 50% likelihood of being upheld require current year expense recognition per SSAP No. 101—Income Taxes.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

o. Agenda Item 2019-46

Mr. Bruggeman directed the Working Group to agenda item 2019-46: ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. Mr. Pinegar stated this ASU requires financial statement presentation of two classes of net assets for not-for-profit entities: 1) with donor restrictions; and 2) without donor restrictions. He stated this nonsubstantive agenda item proposes to reject the ASU as not being applicable for statutory accounting.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

p. Agenda Item 2019-47

Mr. Bruggeman directed the Working Group to agenda item 2019-47: VM-21 Grading. Ms. Marcotte stated that at the Summer National Meeting, the NAIC Executive (EX) Committee and Plenary adopted comprehensive revisions drafted by the Life Actuarial (A) Task Force to Section 21 VM-21 and also to Actuarial Guideline XLIII—CARVM for Variable Annuities (AG 43), which provide guidance on reserving for variable annuities. The revisions adopted to VM-21 and AG 43 represent a change in accounting principle that must be recognized as a change in valuation basis under SSAP No. 51R.

Ms. Marcotte stated that this nonsubstantive agenda item proposes revisions to SSAP No. 51R and reference to the additional grade-in disclosure requirements in SSAP No. 3—Accounting Changes and Corrections of Errors for reporting years beginning Jan. 1, 2020. She stated that the revisions are to remove the existing guidance, which prohibits grading-in changes in valuation basis unless provided for in the statement, to allow a grade-in for changes in valuation basis if permitted by the statement or the Valuation Manual in VM-21. She stated that in deferring to VM-21 on grade-in options, there will be less comparability in reporting because there is more optionality in reserve reporting.

Ms. Marcotte stated that to address the issue of lack of comparability, additional disclosure regarding grade-in has been proposed. She stated that the proposed revisions to SSAP No. 51R expand the disclosure for changes in valuation basis as a
change in accounting principle under SSAP No. 3 to also include details regarding grade-ins of changes in valuation basis, including the grade-in period applied, the remaining amount to be graded-in, remaining time for the grade-in period, and the initial grade-in amount and any adjustments to the original amount. She noted that a reference in SSAP No. 3 regarding additional disclosures of grade-in features is also proposed.

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

Mr. Bruggeman noted that statutory accounting does not typically allow optionality and that providing disclosure for comparability and having some accounting transparency seems to be useful. Ms. Marcotte noted that NAIC staff plan a future agenda item regarding exercise of commissioner discretion in the Valuation Manual.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

q. Agenda Item 2019-48

Mr. Bruggeman directed the Working Group to agenda item 2019-48: Disclosure Update for Reciprocal Jurisdiction Reinsurers. Mr. Stultz stated that on June 25, the Executive (EX) Committee and Plenary adopted revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) to incorporate relevant provisions from the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” and the “Bilateral Agreement Between the United States of America and the United Kingdom Regarding Insurance and Reinsurance” (collectively referred to as the Covered Agreement). He stated that while developing the blanks proposal to include reciprocal jurisdictions reinsurers, a needed change to the disclosure was identified. He stated that the purpose of this nonsubstantive agenda item is to revise one disclosure in SSAP No. 62R to reference “reciprocal jurisdictions.”

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

r. Agenda Item 2019-49

Mr. Bruggeman directed the Working Group to agenda item 2019-49: Retroactive Reinsurance Exception. Ms. Marcotte noted that at the Summer National Meeting, the Working Group, the Casualty Actuarial and Statistical (C) Task Force and the Surplus Lines (C) Task Force received a request from the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries (Academy) Working Group. She stated that the request was to clarify the accounting and reporting for retroactive reinsurance that meets the SSAP No. 62R exceptions to be accounted for as prospective reinsurance.

Ms. Marcotte stated that the request was for the various NAIC groups to develop guidance to address the inconsistencies in application of the reinsurance accounting and reporting guidance, particularly the impact on Schedule P – Analysis of Losses and Loss Expenses (Schedule P) and data that is used for RBC. She stated that the recommendation is to request comments and to ask for industry and state insurance regulator volunteers to assist with developing guidance. She stated that the request asks for guidance on both the accounting and reporting for retroactive contracts that are accounted for prospectively, including situations in which both the ceding entity and assuming entity are members of the same group and are consolidated in the same combined annual statement, as well as the reporting method to be used if the ceding entity and assuming entity are not in the same group.

Ms. Marcotte stated that comments are specially requested regarding the preferred approaches to reporting and the advantages and disadvantages to each approach being used, including both the Schedule P (and related loss analysis) and RBC impacts. She stated that a Working Group notification to the Casualty Actuarial and Statistical (C) Task Force of the request for comments and to highlight the need for coordination will occur with exposure.
In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

7. Considered Maintenance Agenda—Active Listing

   a. Agenda Item 2019-25

   Mr. Bruggeman directed the Working Group to agenda item 2019-25: Working Capital Finance Notes. Ms. Marcotte noted that the materials contain the proposed substantive revisions incorporating the industry proposed language for the six specific items directed by the Working Group at the Summer National Meeting to SSAP No. 105—Working Capital Finance Investments. She stated that the revisions: 1) remove the requirement that the Securities Valuation Office (SVO) determine if the international finance agent is the functional equivalent of the U.S. state insurance regulator; 2) remove the finance agent prohibitions on commingling; 3) remove duplicative text regarding exercise of investor rights; 4) remove requirements, with revisions allowing the SVO to determine if a first priority perfected interest has been obtained; 5) lower the independent review requirements to allow independent review of the finance agent by either audit or through an internal control report; and 6) change the default provisions from 15 days to 30 days so the default date and the cure period are consistent.

   Ms. Weaver made a motion, seconded by Mr. Bartlett, to expose the substantively revised SSAP No. 105 and direct NAIC staff to draft an issue paper. The motion passed unanimously.

8. Discussed Other Matters

   a. Agenda Item 2019-21: SSAP No. 43R – Equity Interests

   Ms. Gann stated that a conference call to discuss agenda item 2019-21 is scheduled for Jan. 8, 2020. She stated a conference call was preferable so sufficient time can be dedicated to the topic and to allow multiple commenters the opportunity to participate in the discussion. Mr. Bruggeman stated that final resolution of this topic is not expected during the conference call.

   b. Agenda Item 2018-07: Surplus Notes

   Mr. Pinegar stated that in response to the Working Group direction from the Summer National Meeting, a data call regarding “linked” surplus notes was developed and issued. He reminded the Working Group that a data call response is not required if reporting entities do not have issued surplus notes that meet the criteria detailed in the instructions and that submissions are due Dec. 31. Mr. Bruggeman stated this data call was issued as there was not sufficient time to data-capture the information in year-end 2019 statutory financial statements. He stated any questions should be directed to NAIC staff or state insurance regulators.

   c. Agenda Item 2016-20: Credit Losses

   Mr. Pinegar stated that since the ASU regarding credit losses was originally released in 2016, numerous technical updates have been issued from the FASB and further updates continue as evidenced by a subsequent update issued in late November 2019. He stated that on Oct. 18, 2019, the FASB voted unanimously to delay the credit loss standard for most entities until 2023. While large SEC filers are required to follow the standard in 2020, all remaining entities were granted a reprieve until 2023. Mr. Pinegar stated NAIC staff recommend continual monitoring of FASB for updates and will keep the Working Group informed regarding developments. Mr. Bruggeman stated that only large SEC filers will be required to follow the credit loss standard in the near future and that the Working Group will continue to defer and monitor for updates.

   d. AP&P Update – Manual & Electronic Version

   Mr. Pinegar stated that the reserving process to obtain a printed Accounting Practices and Procedures Manual will continue, and reservations must be made by Dec. 13, 2019 in order to secure a printed version. He stated those who do not reserve printed copies by this date may only have an electronic version available. Ms. Gann stated that members of the Working Group will receive complimentary printed versions, however if additional copies are requested, the reservation process should be utilized.
Draft Pending Adoption

Accounting Practices and Procedures (E) Task Force
12/9/19

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U.S. GAAP Exposures

Mr. Pinegar stated that NAIC staff have reviewed U.S. GAAP exposures and noted that comments during the exposure periods are not recommended, but a review will occur once issued as final ASUs under the statutory maintenance process. Mr. Pinegar briefly discussed two such items. First, he discussed an exposed ASU regarding proposed guidance for cash-flow hedges and the FASB’s proposal to allow prospective or retrospective review of hedged risk. The second topic he discussed was the FASB’s Reference Rate Reform project. This initiative is in conjunction with the move away from the London Interbank Offered Rate (LIBOR) as a primary reference rate. Mr. Pinegar stated that once the rate reform ASU is issued, NAIC staff will immediately review and will likely request an interim exposure of an applicable agenda item.

Mike Monahan (ACLI) stated that the ACLI is pleased with the Working Group’s attention to the Reference Rate Reform project as the FASB has indicated an expected release in early 2020. He stated this project provides temporary relief for certain hedging and contract modifications due to the discontinuance of LIBOR as a primary reference rate. He stated that the ACLI was supportive of the FASB proposal. Mr. Monahan also stated that the ACLI continues to work with FASB staff in an attempt to obtain additional temporary relief for ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts. He stated the ACLI’s concerns are large SEC filers will be required to follow the standard earlier than smaller reporting companies and entities, and this misalignment of accounting guidance could negatively affect the reinsurance marketplace. Due to the significant volume of reinsurance placed, the ACLI will continue to seek a favorable resolution with the FASB.

Mr. Bruggeman stated that Jan. 31, 2020, is the public comment deadline for all exposures other than the editorial agenda item (Ref #2019-44EP), which has a comment deadline of Dec. 20, 2019.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.
The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call Sept. 9, 2019. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears, Vice Chair (IA); Kim Hudson (CA); William Arfanis (CT); Rylynn Brown (DE); Eric Moser (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Joe DiMemmo (PA); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI). Also participating was: Jack Broccoli (RI).

1. Considered Maintenance Agenda Item 2019-32

Mr. Bruggeman directed the Working Group to agenda item 2019-32: Segregated Accounts. Ms. Gann stated this agenda item was drafted to clarify statutory accounting provisions for insurance and reinsurance operations reported within segregated accounts that are not captured in scope of Statement of Statutory Accounting Principles (SSAP) No. 56—Separate Accounts or SSAP No. 74—Insurance-Linked Securities Issued Through a Protected Cell. Ms. Gann stated that the term “segregated account” within this agenda item was intended to capture all scenarios in which a reporting entity has legally separated specific assets and liabilities for certain insurance risks. The legal classification and use of segregated accounts is determined based on domiciliary state law and state insurance regulator approval. Ms. Gann stated that while segregated accounts are considered separate and distinct from items captured in SSAP No. 56 or SSAP No. 74, the draft agenda item clarifies that all assets and liabilities within segregated accounts shall be captured within the principles detailed in the NAIC Accounting Practices and Procedures Manual (AP&P Manual). Further, any departure from the AP&P Manual shall be captured as a permitted or prescribed practice as detailed in SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures. Ms. Gann stated that this agenda item was proposed for initial exposure to solicit comments and feedback from state insurance regulators and interested parties.

Ms. Gann stated that the primary focus of the proposed SSAP was to clarify that statutory accounting principles apply to segregated accounts. She stated that two reporting options were proposed within the SSAP. The first option was to report the segregated account aggregated into the general account. The second was to report the segregated account disaggregated from the general account. Ms. Gann stated the two reporting methods were proposed in order to comply with differing domiciliary laws that dictate a certain reporting method.

Mr. Smith stated the legal status of segregated accounts remains uncertain and questioned why an SSAP would be created before the legal questions were resolved. He stated that questions continue on whether segregated accounts should be used for insurance purposes and that the issuance of an SSAP addressing segregated accounts may be premature. Mr. Bruggeman stated that there are known situations where segregated accounts are being used. However, he said there is a current lack of direction on accounting and reporting, regardless of outstanding legal status questions. Mr. Bruggeman stated that the Restructuring Mechanisms (E) Subgroup should lead the legal discussion. However, he said the proposed SSAP exposure was intended to begin the process for obtaining feedback on how segregated accounts should be reported, irrespective of legal status.

Mr. Stolte stated he believes the issuance of an SSAP was getting ahead of the Restructuring Mechanisms (E) Subgroup as the legal status of this type of structure remains an outstanding question. Mr. Stolte stated that this type of structure may not be in the best interest of policyholders and that if an SSAP were issued, it may legitimize the practice. He stated that Virginia is concerned with moving forward until the legal questions regarding segregated accounts are addressed.

Ms. Gann stated that NAIC staff agreed with the comments mentioned. However, she said the SSAP was designed so that in the event a state has approved a segregated account structure, the reporting of assets and liabilities would be captured in existing statutory accounting principles. She stated that the proposed guidance was to clarify how segregated accounts should be reported until the Restructuring Mechanisms (E) Subgroup comes to a final conclusion regarding the use of segregated account structures. She stated that NAIC staff support referring the proposal to the Restructuring Mechanisms (E) Subgroup.

Mr. Stolte stated that statutory accounting, through Note 1, already provides guidance on reporting if practices deviate from current codified statutory accounting principles. He stated that if companies were using an existing SSAP for reporting such a structure, the domiciliary states should require a Note 1 disclosure for oversight and risk-based capital (RBC) purposes. In
response to an inquiry from Mr. Bruggeman, Mr. Stolte confirmed he was referring to the prescribed practice disclosure that should be completed when state laws permit segregated accounts.

Mr. Hudson stated that California was supportive of Mr. Stolte and Mr. Smith’s comments. He stated that while a segregated account’s assets and liabilities should be reported, the process of reviewing a segregated account should begin with a different group and agreed with a referral to the Restructuring Mechanisms (E) Subgroup. Ms. Malm stated that she agreed with Mr. Hudson’s comments and suggested that an annual statement blank instruction should be developed detailing how segregated accounts should be reported. Mr. Hudson agreed with Ms. Malm.

Mr. Bruggeman stated that he understands the comments and clarified that if a state law permits a segregated account to be formed, the reporting entity should be detailing the provision in Note 1 as a prescribed practice.

Ms. Gann stated that the annual statement blanks currently indicate a reporting line for “segregated accounts, protected cells, and separate accounts.” However, she said only protected cells and separate accounts are addressed by statutory accounting. She stated that NAIC staff agree with the comments made, but an SSAP update is warranted to clarify reporting for items that are not captured in SSAP No. 56 or SSAP No. 74. She stated that reporting “segregated accounts” on the noted reporting line results with distinct RBC effects that do not reflect the same RBC impact that would have occurred if the items were reported in the general account.

Mr. Smith inquired if an SSAP interpretation would be an appropriate method in lieu of the issuance of a new SSAP. Mr. Bruggeman stated that an interpretation may be an appropriate method, but it may not be substantial enough due to the nature of these structures and as interpretations are generally used to clarify an existing SSAP. Mr. Bruggeman said that due to the circumstances, specific guidance on how to report segregated accounts is warranted.

Ms. Gann stated that due to the comments noting concerns on the aggregated or disaggregated reporting options, the proposed SSAP could be modified to remove these options and clarify that segregated accounts are not captured within SSAP No. 56 or SSAP No. 74 and require disclosure of segregated accounts. Mr. Hudson stated support for this suggested edit.

Mr. Broccoli stated that while the legal status of segregated accounts remains in question, the proposed draft SSAP provides an appropriate reporting mechanism. He stated that the general account does not have legal access to the assets in the segregated account. As such, it is important for state insurance regulators to review the financial condition of the segregated account independent of the general account because if combined, a strong general account could mask an insolvent segregated account. Mr. Broccoli stated that the draft SSAP provides a transparent method of assessing the segregated account as its policyholders do not have access to general account assets in the event a segregated account becomes insolvent.

Mr. Bruggeman stated that a Note 1 option could be employed to capture all items not specifically identified in statutory accounting, detailing the segregated account effect on the reporting entity’s surplus and income. However, as assets from the general account and segregated account are not transferable between the two entities, increased reporting and disclosure could be beneficial for assessing the segregated account. Mr. Stolte stated Virginia has seen the surplus of segregated accounts being combined into the general account, even though the segregated account surplus is not free and unencumbered for use by the general account. He said that Note 1, if properly used, could properly report a segregated account.

In response to an inquiry from Mr. Bruggeman on next steps, Mr. Hudson and Ms. Malm stated they support the discussed editorial updates to the proposed SSAP for subsequent review by the Working Group. Mr. Bruggeman inquired if there were any objections to this approach. No objections were noted.

2. Discussed Other Matters

Ms. Gann stated that a data call template regarding surplus notes has been provided to members of the Working Group and that feedback should be provided by Sept. 13.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.
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October 11, 2019

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: Exposure Drafts Released for Comment During NAIC National Meeting with Comments due October 11

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the exposure drafts released for comment by the Statutory Accounting Principles (E) Working Group (the “Working Group”), during the NAIC Summer National Meeting in New York. We offer the following comments:

**Ref #2017-28: Reinsurance Credit**

The Working Group adopted, as final, *Issue Paper No. 162—Property and Casualty* to document for historical purposes the revisions related to *SSAP No. 62R—Property and Casualty Reinsurance*, which was adopted at the 2018 Fall National Meeting.

In addition to the issue paper adoption, on August 3, 2019, the Working Group also exposed for comment the following items applicable to SSAP No. 61R – Life, Deposit-Type and Accident and Health Reinsurance (SSAP No. 61R) and Appendix A-791 – Life and Health Reinsurance Agreements (A-791):

1. Disclosures, (previously exposed) and concurrent with the exposure, directed notification to the Financial Analysis (E) Working Group of the exposure as the disclosures were originally developed at their request.

2. The two A-791 QA items related to certain nonproportional reinsurance contracts” covered under the A-791 and medical loss ratios (previously exposed – the drafting group reviewed the comments).

3. Regulator proposed revisions to add A-791 QA under paragraph 2c regarding group term life YRT reinsurance contracts.
Interested parties appreciate the outreach the NAIC has made to the industry through the informal SSAP No. 61R Life and Health reinsurance drafting group. We believe the drafting group has allowed us to better understand the issues raised by regulators.

In summary, we do not have any concerns with the re-exposed disclosures and the two Q&A’s regarding short-duration health reinsurance treaties and offer the following comments.

With respect to the group term life YRT exposure, in general interested parties believe this draft exposure language addresses the concerns expressed by regulators in the drafting group and in prior exposures, and we would support this Q&A being added to 2.c in Appendix A-791, as long as the guidance does not impact contracts that do not raise such concerns as described below.

The proposed Q&A would deny risk transfer for specific group term life YRT reinsurance transactions if the reinsurer has the right to charge reinsurance premiums higher than the premiums received by the ceding company on the business reinsured. However, SSAP 61R and Appendix A-791 specifically exempt YRT reinsurance arrangements from paragraph 2.e of Appendix A-791, which denies risk transfer if the reinsurance agreement charges reinsurance premiums greater than the direct premiums collected by the ceding company.

There are specific circumstances where YRT reinsurance agreements do have reinsurance premiums greater than direct premiums, yet reinsurance accounting is appropriate, and this 2.e exemption has allowed those circumstances to meet risk transfer regulations. Examples of such reinsurance agreements include:

1. High level excess YRT agreements. High amount policies have higher volatility in claims. It is reasonable and appropriate for a reinsurer to charge a higher amount to cover these claims.
2. Level term premiums, where a true one-year risk premium in later years is likely to exceed the level premium.
3. In force business, where a ceding company has realized they are not charging sufficient premiums for the true risk. The ceding company may have to accept higher reinsurance premiums than they charge to appropriately discharge the risk going forward.
4. YRT for universal life. YRT premiums often will not have a direct or proportional relationship to either the premiums or cost of insurance rates charged by the ceding company.

The concerns about group term life YRT reinsurance raised by regulators are focused on reinsurance agreements with risk limiting features. As the exposure is phrased, the guidance here would be limited to group term life YRT reinsurance agreements where future experience refunds can be offset against current and prior year losses. Reinsurance agreements such as those in the examples above are unlikely to have such a loss carryforward provision, and thus should not be impacted by this guidance. Additionally, we would like to comment on the implementation/timing of the proposed exposure, when it is finalized. We believe that there are reinsurance transactions in place today which meet current regulations for risk transfer that would not meet risk transfer under this new guidance. This new Q&A may impact some company’s financial statements. Consideration should be given to grandfathering these transactions, or to establishing a prospective effective date that would provide enough time for these companies to make appropriate changes to their reinsurance agreements or to otherwise prepare for this impact. If a prospective effective date is the approach chosen, we recommend an effective date of 1/1/2021.
Ref #2018-26: SCA Loss Tracking – Accounting Guidance

The Working Group exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, to revise the existing reporting requirements for when a reporting entity has a negative value in an SCA investment when the reporting entity has provided a financial commitment or guarantee. The illustration from the existing INT 00-24: EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses has also been moved to SSAP No. 97, in its entirety, as a new exhibit. This INT provides examples of how losses in an SCA shall be applied to other investments once the SCA equity investment has been halted at zero.

On August 3, 2019, the Working Group re-exposed revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, to require a financial commitment or guarantee for a subsidiary, controlled, or affiliated (SCA) entity to be recognized as a non-contingent guarantee liability. These proposed revisions differ from the prior exposure as they would capture the entire financial guaranty or commitment for an SCA within scope of SSAP No. 5R and report a zero value for SCAs with a negative equity value.

Interested parties believe that additional clarifications are necessary regarding the proposed revisions to paragraphs 18 and 24 of SSAP No. 5R. Regarding paragraph 18, we believe a parent’s guarantee on behalf of an SCA entity with negative equity could result in the recognition of either an initial guarantee liability or a liability subsequent to the initial recognition. Therefore, we propose more general wording to the end of paragraph 18 as follows:

18. The following types of guarantees are exempted from the initial liability recognition in paragraphs 20-25, but are subject to the disclosure requirements in paragraphs 29-32. For the guarantees addressed in paragraphs 18f and 18g, recognition of a contingent guarantee may be required subsequent to initial recognition in accordance with paragraph 24a:

   a. Guarantee that is accounted for as a derivative instrument, other than credit derivatives within SSAP No. 86;
   b. Guarantee for which the underlying is related to the performance of nonfinancial assets that are owned by the guaranteed party, including product warranties;
   c. Guarantee issued in a business combination that represents contingent consideration;
   d. Guarantee in which the guarantor’s obligation would be reported as an equity item;
   e. Guarantee by an original lessee that has become secondarily liable under a new lease that relieved the original lessee from being the primary obligator;
   f. Guarantees (as defined in paragraph 16) made to/or on behalf of directly or indirectly wholly-owned insurance or non-insurance subsidiaries; and
   g. Intercompany and related party guarantees that are considered “unlimited” (e.g., typically in response to a rating agency’s requirement to provide a commitment to support).

The exemptions for items f and g above do not apply in situations in which a reporting entity has provided a financial guarantee or commitment to support a subsidiary, controlled or affiliated entity (SCA), and the SCA’s equity is negative (see paragraph 24).
We find the new paragraph 24 wording confusing in that it tells the preparer in the first sentence to recognize the greater of the guarantee liability or the negative equity of the SCA. However, the third sentence clarifies that the guarantee liability shall not exceed the maximum amount of the guarantee. We propose condensing these items into one sentence in our recommended revisions below, and also clarifying that the “greater” term actually refers to the greater negative impact to the reporting entity’s financial statements. We also recommend that the new proposed paragraph be a stand-alone paragraph (i.e., new paragraph 25, with re-numbering of all subsequent paragraphs):

“In situations in which a reporting entity has provided a financial guarantee or commitment to support a subsidiary, controlled or affiliated entity (SCA), and the reporting entity’s share of losses in the SCA exceed the equity method carrying amount of the SCA (resulting in a negative equity value in the SCA), the reporting entity shall adjust the initially recognized guarantee obligation to reflect the greater impact of (i) the then-current fair value liability for of the guarantee or (ii) the negative equity position, limited to the maximum amount of the financial guarantee or commitment provided by the reporting entity. (ForThis guidance requires the recognition of a guarantee liability for guarantees captured in paragraphs 18f and 18g this guidance requires recognition of a contingent guaranty when negative equity exists in an SCA.) The recognized guarantee liability shall not exceed the maximum amount of the financial guarantee or commitment provided by the reporting entity. The guidance in paragraphs 24 and 25 20 through 26 shall be followed for the recognition of recognizing a contingent liability and subsequent re-recognition of a noncontingent liability, as applicable.”

Ref #2019-04: SSAP No. 32 – Investment Classification Project

The Working Group exposed for comment Issue Paper No. 1XX—Preferred Stock to revise the definitions, measurement guidance and impairment guidance for preferred stock pursuant to the investment classification project.

Interested parties substantially agree with the objectives of the proposal to:

a. Improve preferred stock definitions, with inclusion of information from U.S. generally accepted accounting principles (GAAP) for classifying preferred stock as redeemable or perpetual. The revisions also incorporate a new exhibit to capture various terms prevalent in preferred stock.

b. Revise the measurement guidance to ensure appropriate, consistent measurement based on the type of preferred stock held and the terms of the preferred stock. The revisions also incorporate guidance for mandatory convertible preferred stock.

c. Incorporate revisions to clarify impairment guidance as well as guidance for dividend recognition and redemption of preferred stock with the issuer.

Interested parties have the following comments related to the issue paper:

Overall:

The issue paper refers to preferred stock throughout the document, at times the paper references the instruments as securities. For purposes of definitional clarity we do not believe the use of the term security is interchangeable as it pertains to preferred stock. As such, we recommend that all references to security be changed to interest or directly reference the type of stock under discussion.
Scope:

Interested parties note that the scope retains, albeit edited, the guidance that preferred stock of subsidiary, controlled and affiliated entities is included and therefore accounted for under the guidance for preferred stock regardless of their SCA character. Interested parties also note that preferred stock in SCAs other than preferred stock issued by domestic insurance entities is required to be filed with the NAIC pursuant to paragraph 50 of SSAP No. 97 Exhibit A – SCA Reporting Process. For the avoidance of doubt, interested parties suggest a clarifying sentence in double underline below. The existing wording in SSAP No. 32 and the exposed language for SSAP No. 32 is below with interested parties suggested clarifying sentence (underlined).

Existing language in SSAP No. 32

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

Exposed language in SSAP No. 32 and interested parties suggested clarifying sentence in underline

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

Definitions:

The proposed definitional guidance could potentially change the scope of what is considered redeemable preferred stock vs perpetual preferred stock and create an inconsistency as to how the preferred stock would be treated. Under the previous guidance, redeemable preferred stock included stock that was mandatorily redeemable or redeemable at the option of the holder. This definition was consistent with how GAAP distinguishes between debt and equity security classification under ASC 321, Investments – Equity Securities. We believe the intention of the Staff was to align the definitions with the treatment under GAAP. However, using the language from ASC 480, which addresses the accounting from the issuer’s perspective, does not align with how the investor in the security accounts for the asset under GAAP. As such we propose the following revisions (indicated with edit marks) to the definitions:

3. Preferred stock shall include:
   a. Redeemable preferred stock, which is preferred stock subject to mandatory redemption requirements or whose redemption is outside the control of the issuer. Redeemable preferred stock is any stock which 1) the issuer undertakes to redeem at a fixed or determinable price on the fixed or determinable date or dates, whether by operation of a sinking fund or otherwise; 2) is redeemable
at the option of the holders; or 3) has conditions for redemption which are not solely within the control of the issuer, such as stock which must be redeemed out of future earnings. Preferred stock which meet one or more of these three criteria would be classified as redeemable preferred stock regardless of other attributes such as voting rights or dividend rights. (Staff Note – this definition comes from FASB ASC 480-10-S99, modified to eliminate reference to conversion features as mandatory convertible preferred stock has special treatment under this SSAP.) ; and to be consistent with the description of redeemable preferred stock for a holder in the ASC Master Glossary definition of debt security.;

b. Perpetual preferred stock, which is preferred stocks which are not redeemable or are redeemable other than solely at the option of the issuer holder (non-redeemable preferred stock). Perpetual preferred stock is any preferred stock which does not meet the criteria to be classified as redeemable preferred stock pursuant to paragraph 3.a. Staff Note – this definition comes from FASB ASC 480-10-S99 modified to be made consistent with the description of redeemable preferred stock for a holder in the ASC Master Glossary definition of debt security.)

**Fair Value Cap for Callable Perpetual Preferred Stock:**

The issue paper broadly requires fair value measurement for redeemable preferred stock, perpetual preferred stock, mandatory convertible preferred stock and dividends (paras 16.a-d, para 18), depending on the quality rating expressed as an NAIC designation. Interested parties note that these assets may not have readily determinable fair values, and as such, fair value techniques using the cost approach, Level 3 inputs and practical expedients may be prevalent and necessary for these assets.

The issue paper discusses carrying perpetual preferred at fair value capped by any call price. However, it did not provide guidance on timing for application of the cap. Because the call may not be effective for a period of time, we propose the language be modified to state that “the measurement for these preferred stocks reflects fair value, not to exceed any currently effective buy back rates (call prices) that the issuer can utilize to redeem the stock.” These provisions would ensure that purchases of perpetual preferred stock could still be carried at values greater than par (assuming market values remain above par).

**Other Than Temporary Impairment (OTTI):**

For perpetual preferred stock, if the intent of the clarification is to provide OTTI guidance when the asset is already recorded at fair value then we would suggest OTTI language consistent with SSAP No. 30R, revised for preferred stock as follows:

For any decline in the fair value of a perpetual preferred stock, reported at fair value, for which the decline is determined to be other than temporary the perpetual preferred stock shall be written down to the new fair value basis and the amount of the write down shall be accounted for as a realized loss. For those reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7. Future declines in fair value which are determined to be other than temporary shall be recorded as realized losses. A decline in fair value which is other than temporary includes situations where a reporting entity has made a decision to sell a security at an amount below its carrying value.
Ref #2019-08: Reporting Deposit-Type Contracts

The Working Group exposed this agenda item with the inclusion of the items and questions that were noted, with a request for additional comments from industry and state insurance regulators, and directed notifications of the exposure with a request for comments to the Financial Stability (EX) Task Force and the Life Actuarial (A) Task Force on the reporting of insurance contracts that do not have a mortality or morbidity risk.

This agenda item was initially drafted in response to questions identified by the Financial Stability Task Force (“FSTF”) in developing liquidity disclosure changes to the 2019 life blank. An agenda item was exposed with a request for comments on why guaranteed investment contracts (“GICs”), or other deposit-type contracts, are reported in Exhibit 5 – Life Contracts or Exhibit 6 – Accident and Health Contracts, instead of Exhibit 7 – Deposit Type Contracts.

On August 3, 2019, this agenda item was re-exposed with the inclusion of the items and questions noted below, with a request for additional comments from industry and state insurance regulators, and directed notifications of the exposure with a request for comments to the FSTF and the Life Actuarial Task Force on the reporting of insurance contracts that do not have a mortality or morbidity risk.

Before responding to the questions raised, interested parties note that the comments from the FSTF anticipates a classification system based on degree of risk. This is entirely new. The current classification is based strictly on mortality guarantees (Exhibit 5), morbidity guarantees (Exhibit 6), or neither (Exhibit 7). There is no concept of degree of risk in the current statutory classification. If the benefits of such fundamental changes to Exhibits 5, 6, and 7 were demonstrated to outweigh the costs, this would be a significant undertaking and companies would need significant lead time to implement systems changes. Please see the questions and interested parties (IP) responses below:

1. **Classification at Issuance** – The interested parties noted that because a contract was life-contingent at issue, it is reported in Exhibit 5, and then it remains in Exhibit 5 after the death of the annuitant.

   **Question** – Is it appropriate to classify products based on original issuance when the original risks are no longer present in the contract? Is this simply past industry practice, or is there direction that prevents reclassification to the category that most appropriately reflects the risk? Preliminary information received from the Financial Stability (EX) Task Force (FSTF) staff has noted that this practice will make it more difficult to properly aggregate and assess deposit-type contracts, and that this assessment is important as the payouts for deposit-type contracts are significantly different than payouts generated by an insured event. The Task Force has identified that information on liabilities, particularly those that can be called quickly with little or no surrender penalty, is of critical importance to liquidity assessments.

   **IP Response** - Tradition and SSAP No. 50 generally classify contracts with any life contingencies as life contracts. In practice, this “any life contingencies” is interpreted as those that are guaranteed.
SSAP No. 50, Paragraph 5, includes the statement, “Such classification shall be made at the inception of the contract and shall not change.” In practice, if there is a new contract, such as a supplementary contract to a life insurance benefit, the contract is re-evaluated as to whether it contains life contingency guarantees. For policyholder election of a payout benefit from a deferred annuity contract, re-evaluation varies depending on the Company’s valuation and risk policies. (For example, two-tiered policies are priced for annuitization, and the election of an annuitization option may be treated as a continuing contract and may not create a re-evaluation.)

For payout contracts issued as life contingent with a minimum guaranteed certain period, death of the original annuitant does not cause a change in contract. It is a change in payee for the remainder of the guaranteed certain period.

2. **State Approval** – The interested parties noted that state insurance departments have the discretion to approve or require a contract to be classified as a life or A/H insurance contract.

**Question** – If a state directs reporting differently than what is stipulated in the AP&P Manual, is that being captured as a permitted or prescribed practice? (The provisions in SSAP No. 1 require permitted / prescribed practice reporting when it results in different statutory reporting. Examples included in SSAP No. 1 include gross or net presentation, financial statement reporting lines, etc.)

**IP Response** - In our observation and experience, discretion exercised by state insurance departments on product classification is rare. When it happens, it is generally in the product filing process, generally applies to group products (e.g., association group), and where there is judgement as to whether the benefits should be classified as Exhibit 5 or Exhibit 6.

3. **Annuity Guidance** – The interested parties cited existing annuity guidance in paragraph 20 of SSAP No. 50 - *Classifications of Insurance or Managed Care Contracts*. Per this guidance, contracts containing well-defined class-based (e.g., age / gender) annuity purchase rates used in defining either a specific or maximum purchase rate guarantee would constitute an annuity contract containing a life contingency that would require it to be classified as a life contract.

**Question** – NAIC staff agrees with the citation from interested parties on annuities in paragraph 20 of SSAP No. 50 - *Classifications of Insurance or Managed Care Contracts*. However, with the intent to have more explicit product breakouts to allow for better assessment, is it time to clarify / revise this guidance to result with the appropriate breakouts created by FSTF? It was noted that the current concepts were established a long time ago and there is a focus on non-traditional insurance liabilities (which includes funding agreements) for liquidity risk assessment as they can have higher run risk.

**IP Response** – We believe the current guidance supports the classification of life annuity contracts within Exhibit 5 regardless of payout status. While we acknowledge the conceptual distinction noted by NAIC Staff with respect to a single life annuity contract for which the life status has changed, we do not believe this represents a significant change in the risk profile of a given block of annuity contracts, for which the majority may not reach term-certain status.
We would also highlight the administrative burden of the proposed changes. As a practical matter, it would be necessary to convert life annuity contracts to new plan codes on the death of the annuitant in order to capture the appropriate information in the Summary of Operations by Line of Business. This change must be implemented at the policy administration system level and would require significant time and effort on the part of industry. We do not believe the perceived benefits of this change justify the cost, particularly given recent significant annual statement changes for product reporting. Rather than implementing additional product granularity at this time, we suggest that regulators and staff work with industry to review the new Note 32 and Note 33 disclosures, which are specifically designed to communicate liquidity risk. We believe these disclosures will fulfill the regulatory objective in a more cost-efficient manner.

4. **Materiality of Issue** – Although the interested parties cite a “common” scenario, without information in the financial statements, there is no current ability to identify the extent contracts with no remaining mortality or morbidity risk are reflected as life contracts.

**Question** – To what extent are deposit-type contracts captured in an exhibit other than Exhibit 7? Is it possible to receive information from companies regarding this population for assessment purposes?

**IP Response** - We contend that by the guidance identified in SSAP No. 50, paragraph 20, a certain and life annuity, or a refund annuity, that continues payments to a surviving beneficiary after the death of the primary annuitant is not re-classified as a deposit-type contract. It is a life annuity contract where additional information on the life-status of the annuitant has become known.

Many deferred annuities contemplated by SSAP No. 50, paragraph 20a, are ultimately surrendered rather than electing a guaranteed lifetime income. These annuities are treated as investment contracts under US GAAP and re-evaluated at the time of election to annuitize. On the other hand, it is becoming more common for deferred annuities to include guaranteed minimum income benefits, minimum death benefits, or similar benefits (collectively GMxBs). A policyholder no longer has to annuitize for the contract to be subject to life contingent risks.

Ref #2019-12: **ASU 2014-17, Business Combinations – Pushdown Accounting, a Consensus of the FASB Emerging Issues Task Force**

Ref #2019-14: **Attribution of Goodwill**

The Working Group re-exposed Ref #2019-12 with a request for comments on whether pushdown accounting should be prohibited, permitted for noninsurance entities, or permitted only for U.S. Securities and Exchange Commission (SEC) registrants. The exposure also clarifies that goodwill resulting from an insurance reporting entity’s acquisition of an SCA when pushdown is applied shall be included in the reporting entity’s goodwill admittance limitation of 10% of surplus.

The Working Group re-exposed Ref #2019-14 to consider revisions to SSAP No. 97 – **Investments in Subsidiary, Controlled and Affiliated Entities** to require disclosure, upon acquisition of a holding company with downstream subsidiaries, of the carrying value, goodwill and admitted value of the acquired holding company as well as how the assignment of goodwill to the downstream entities was determined.
Interested parties reviewed the options exposed by the Working Group for consideration regarding pushdown accounting in Ref #2019-12. We do not recommend option 1 (“complete rejection of pushdown accounting”). With regard to the second and third options exposed for Working Group consideration, interested parties need additional time to evaluate whether these options are feasible. In our discussions, it was apparent that the proposed changes involve significant changes to insurers’ reporting and the complexities of the reporting mechanics of the annual statement will need to be addressed in applying the 10% goodwill admittance limitation and pushdown accounting. These complexities include the application of an aggregate 10% admittance limitation when multiple SCA entities carry GAAP goodwill on their individual balance sheets, as well as application to an acquired SCA holding company with subsidiaries (or layers of subsidiaries). Because annual statement reporting and disclosure includes considerable details on each investment in an SCA entity, specific guidance will likely be needed to address reporting issues such as presentation on the annual statement balance sheet and the related investment schedules, as well as interpretation related to current disclosures (including the proposed disclosures in Ref #2018-14). We believe these operational complexities need to be addressed before any proposal is considered for adoption by the Working Group.

Interested parties request additional time to evaluate various approaches for allowing pushdown accounting and working though the operational mechanics of a goodwill admittance limitation as well as evaluating the impact on insurers’ capital and surplus. Our goal is to present a recommendation for Ref #2019-12 to the Working Group during the 2020 Spring National NAIC Meeting that addresses these complexities. Because the proposed disclosures in Ref #2019-14 includes specific SCA entity goodwill and admitted value amounts, interested parties would include those proposed disclosures in our evaluation and recommendation and, therefore, also request additional time to respond to that agenda item.

Given the need to work out clear examples that address the reporting complexities and the need for transition guidance, interested parties do not believe the proposed changes in Ref #2019-12 and Ref #2019-14 are non-substantive nor do we believe these proposed changes can be applicable to year end 2019 reporting.

Ref #2019-18: Accounting for “Other” Derivatives

The Working Group re-exposed revisions to SSAP No. 86—Derivatives, to clarify that “other” derivatives not used in hedging, income generation or replication shall be reported at fair value and do not qualify as admitted assets.

Interested parties are still concerned about potential unintended consequences of the cliff effect (potential non-admission of a bond with a trivial embedded derivative) as capital markets develop. If and when problems develop, interested parties may re-examine this issue.

Ref #2019-19: SIRI – Equity Interests

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions that clarify what should be captured in SIRI Line 13: 10 Largest Equity Interests, noting that a look-through should only occur for non-diversified funds. The revisions also exclude Securities Valuation Office (SVO)-Identified Bond Exchange-Traded Funds (ETFs) and SVO-Identified investments with underlying characteristics of fixed-income investments from this equity interrogatory.
With exposure, a referral was directed to the Capital Adequacy (E) Task Force with a request for clarification on the impact, if any, these changes may have to risk-based capital.

Interested parties have no comment on this item.

**Ref #2019-20: Rolling Short-Term Investments**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 2R—*Cash, Drafts and Short-term Investments* and SSAP No. 103R—*Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments.

Interested parties have concerns about the proposal to prohibit the reporting of certain short-term investments and cash equivalents as such. Certain short-term / cash equivalent investment structures have been identified by industry that are utilized in order to facilitate efficiencies and gain economies of scale and we believe they should continue to be reported as short-term or cash equivalents. While these investments may be regularly renewed, the risk profile continues to be commensurate with that of short-term investments or cash equivalents. Interested parties disagree with the broad-based language of the current exposure and believe there are more direct approaches to addressing concerns about inappropriate investment classification. We welcome the opportunity to discuss alternative approaches with staff.

**Short-Term Cash Pooling Arrangements:**

Many entities maintain short-term cash pooling arrangements. These arrangements have been instituted at insurance entities in order to more effectively invest enterprise cash, gain economies of scale, and reduce transaction costs; they have not been instituted in order to circumvent reporting requirements. Through the use of these arrangements, entities are able to generate higher returns for subsidiaries while reducing cost and personnel time required for investing on a short-term basis for all affiliated companies in an organization. These arrangements are often held within separate legal entities in which each participant invests or withdraws funds as needed on a short-term basis (sometimes daily), with their ownership interest in the arrangement fluctuating accordingly. However, participants maintain some level of interest in the pool for an extended period of time. These cash pooling arrangements have been permitted by model investment law; in addition, many insurers have received guidance from state regulators to report these investments as either short-term investments or cash equivalents depending upon the character of the underlying investments in the pool. We believe, although an insurer may own interest in the pools for longer than 3 months or a year, their investments in the short-term pools should continue to be reported as either short-term or cash equivalents, depending on the maturity dates of the underlying assets in the pool, because the risk of repayment is commensurate with the risk of repayment for the underlying assets.

In addition to the specific structures noted above, interested parties are concerned that the exposed guidance would result in misclassified assets on the balance sheet (e.g., BA asset for short-term pool arrangements instead of a cash equivalent), which would distort the level of cash, impacting liquidity ratios, RBC charges and presentation of cash flows. Thus, for these reasons, interested parties believe that short-term investment / cash equivalent reporting should continue for investments made at fair market terms with contractual maturities within the applicable time periods.
Short-Term Lending:

Regarding short-term lending, interested parties believe that the reporting of the investment should continue to follow the form of the legal agreement, including the contractual maturity. These loans are structured for several important business reasons and have contractual maturities of less than one-year, often with the ability to renew. Upon initial evaluation, lender considerations include borrower repayment ability, value of any collateral provided, current market conditions and the presence of subordinated capital. Diligent underwriting and structuring are performed, with the completed loan agreement representing a binding contract with an unconditional obligation to repay upon contractual maturity (<12 months). Neither lender nor borrower has an obligation to extend the loan; however, at maturity, both lender and borrower have the ability to re-evaluate the transaction. If either or both parties wish to extend, the lender re-evaluates the financial position of the borrower, current value of existing collateral, and terms of the loan. If the lender decides to renew the loan, the terms are reviewed and renegotiated/re-underwritten with new terms reflecting then current market rates, consistent with the provisions of SSAP 25. Therefore, any extension should be considered a new loan transaction with a new maturity date. If extension is not mutually agreed upon, repayment to the lender is contractually required. Further, for short-term lending with affiliates over certain thresholds, prior regulatory approval may be required, providing additional opportunity for regulatory oversight. Thus, as long as these short-term loans have been made at fair market rates and with fair market conditions (which is required for loan admittance in accordance with SSAP No. 25 paragraph 9, if applicable), the economics and risk of the investment is commensurate with short-term investment reporting.

Interested parties recommend that the scope of the issue be identified prior to proposing any changes to the SSAPs. This should include identification of specific problematic investment structures, under which the economics of the transaction are not commensurate with the current classification. Once the scope and magnitude are identified, a decision can be made whether the targeted issue is widespread or limited to a few companies and whether a more direct approach may also have the desired result.

Ref #2019-22: Wash Sale Disclosure

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to clarify that only investments that meet the definition of a wash sale in accordance with SSAP No. 103R that cross reporting period-end dates would be subject to the wash sale disclosure.

Interested parties support the proposed revisions.

Ref #2019-23: Going Concern

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, to clarify that if an unalleviated going concern is noted in audited financial statements or audit opinion, the SCA shall be nonadmitted.

Interested parties have no comment on this item.
Ref #2019-24: Levelized and Persistency Commission

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 71—Policy Acquisition Costs and Commissions, to clarify levelized commissions guidance and provide additional direction regarding commissions that are based on policy persistency. The revisions also clarify that the recognition of commission expense is based on experience to date.

The proposal as written will be a substantive change to the current guidance and to our industry, despite being categorized as nonsubstantive. The proposed changes do not merely clarify the current SSAP 71 regarding commissions, but substantially change a key point regarding persistency. During the SAP formulation process, there were two Issue Papers issued in 1996 (January and final paper in September 1996), the latter of which introduced the last sentence of paragraph 5 of the current SSAP 71. The addition of this sentence in the final issue paper from 1996 makes a distinction between the levelized commissions described as funding agreements and those which are based on persistency and other traditional elements. The effect of removing that distinction is substantive and requires the protocol of a substantive change. Additional comments and details are as follows:

1. The proposal makes substantive changes to the accounting paradigm for levelized commissions. As written, the proposed changes may have serious unintended consequences to statutory accounting. The nature of the exposed substantive changes separates the issue of “persistency” as a key element of the levelized commission payment mode of operation. This practice is engaged in by several insurers, specifically companies issuing variable life and annuity products. For example, per the exposed language, a liability for trail commissions over possibly decades would be required at policy issuance although not formally due. Persistency is a critical insurance risk. (See proposed language that the only obligating event is initial sale of a policy.) Ignoring persistency runs directly counter to various other principles of statutory accounting, most notably the definition of principle risks for reinsurance consideration in A-791.

2. The newly installed Principles-Based Reserving (“PBR”) methodology allowed by regulators now includes the commission element. The effects of the proposal on PBR have not been reviewed or analyzed to determine if there are any unintended consequences, possibly double-counting, that inure to the proposal.

3. The effects of the proposal relative to reinsurance transactions have not been reviewed and analyzed inasmuch as reinsurance transactions must transfer risk, including persistency risk. (See note above regarding A-791.)

4. The issuance of a policy or contract is not the sole triggering event of a commission liability under a levelized commission mode of operation. Persistency requirements under the actual terms of the contract between the payor (the insurer) and the payee (the agent or broker receiving the levelized commission) is a key determinant as to when a liability is incurred. If a policy is issued but the persistency requirement is not met, then no commission liability is due.

5. The current accounting mode is standard in the industry, preceding the formulation of current SAP (reference the Accounting Practices and Procedures Manual-Life which was in force prior to the effective date of current SAP and which includes the same wording as current SSAP No. 71).
6. The proposal does not address policy fees, which can possibly be interpreted in a similar vein as commissions.

7. The proposal’s paradigm could possibly be applied to other items reflecting estimated predictable expenses that have yet to be incurred or for which benefits have not been received.

8. The proposal seems to be at odds with GAAP accounting rules as to the establishment of liabilities, specifically how GAAP treats commissions tied to persistency. Required persistency is deemed a “future” event negating the need for recording a current liability. This is differentiated where payments are merely extended (payment due solely based on passage of time) versus payments requiring ongoing commitments, persistency.

**Conclusion**

The proposal set forth is certainly substantial and requires additional in-depth analysis. Further, due to the substantive amendment currently proposed has broad and unintended implications, we ask the SAPWG to further consider and deliberate the issues.

**Ref #2019-26: Appendix A-785 Revisions from U.S./EU and U.S./UK Covered Agreements**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix A-785, Credit for Reinsurance, related to the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance And Reinsurance” (Covered Agreement) adopted to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786).

Interested parties note that on page 17 of the exposure, paragraph 13.b refers to “paragraph 12.g” and should be “paragraph 13.g”


The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed editorial revisions to SSAP No. 62R—Property and Casualty Reinsurance, SSAP No. 86—Derivatives, and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.

Interested parties have no comment on this item.

**Ref #2019-28: ASU 2019-05, Targeted Transition Relief**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 100R—Fair Value, to reject ASU 2019-05, Targeted Transition Relief for statutory accounting.

Interested parties support the conclusion reached.
Ref #2019-29: ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 68—Business Combinations and Goodwill and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, to reject ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities for statutory reporting.

Interested parties support the proposed revisions.

Ref #2019-30: ASU 2019-03, Updating the Definition of Collections

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2019-03, Updating the Definition of Collections as not applicable to statutory accounting.

Interested parties have no comment on this item.

Ref #2019-31: ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made as not applicable to statutory accounting.

Interested parties have no comment on this item.

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Thank you for considering interested parties’ comments. If you have any questions in the interim, please do not hesitate to contact us.

Sincerely,

D. Keith Bell  
Rose Albrizio
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: Exposure Draft Ref #2018-38: Prepayments to Service and Claims Adjusting Providers for Comment During NAIC National Meeting with Comments due October 11

Dear Mr. Bruggeman:

This item was initially exposed for comment in November 2018 in response to a regulator inquiry regarding prepayments to providers of claims and adjusting services for which the service provider is prepaid by the insurer. Interested parties provided comments to the original exposure draft, specifically regarding the treatment of the prepaid expenses as not being consistent with the classification of such amounts as miscellaneous underwriting expenses if the prepaid expense is for a covered peril in accordance with the underlying insurance contract.

During the 2019 Spring National Meeting, the Working Group incorporated these changes into the exposure draft and re-exposed this item for comment. The proposed accounting treatment would require prepayments for loss and loss adjustment expenses to be classified as a prepaid asset, and nonadmitted in accordance with SSAP No. 29, Prepaid Expenses. Upon payment of the claim to the policyholder, the prepaid asset would be reclassified as a loss or loss adjustment expense, in accordance with the terms of the contract.

As described in the issue summary, NAIC staff noted that this guidance is consistent with existing guidance instead of the approach to “expense and reclassify as amounts are paid” contained in the previous exposure draft. The more recent exposure draft retained the exclusion of this guidance to contracts subject to SSAP No. 84, Health Care and Government Insured Plan Receivables.

The Working Group made additional revisions to the exposure draft during the Summer National Meeting to “emphasize existing guidance that loss and loss adjusting expense liabilities are established regardless of payments to third parties. The liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted. Payments to third party administrators, which are not for claims or loss adjusting expense, are ‘miscellaneous underwriting expenses.’”

As noted in the 2019 Summer National Meeting minutes, these additional revisions were made in
conjunction with comments primarily from the health insurance industry as the previous exposure draft was not consistent with current accounting requirements.

Interested parties note that there are differences in the treatment of loss and loss adjusting expenses by different sectors of the industry. However, the current exposure removes important clarification from the 2019 Spring National Meeting exposure draft. To address these noted concerns, interested parties proposes the following changes which are highlighted in yellow to the 2019 Summer National Meeting exposure draft – these changes incorporate industry specific guidance to address the differences in accounting by industry. Interested parties also propose moving exposed item 4.c. back to the last sentence of paragraph 4, along with proposed wording for the treatment of prepaid loss and loss adjusting expenses by specific sector of the industry. As reflected in the drafting note, there is already existing guidance which will remain unchanged; the additional clarifying guidance is proposed to be added to existing guidance.

**2019 Summer National Meeting exposure:**

**SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses:**

4. Claims, losses, and loss/claim adjustment expenses shall be recognized as expenses when a covered or insured event occurs. In most instances, the covered or insured event is the occurrence of an incident which gives rise to a claim or the incurring of costs. For claims-made type policies, the covered or insured event is the reporting to the entity of the incident that gives rise to a claim. Until claim payments and related expense payments are made subsequent to the occurrence of a covered or insured event, and in order to recognize the expense of a covered or insured event that has occurred, it is necessary to establish a liability. Liabilities shall be established for any unpaid claims and unpaid losses (loss reserves), unpaid loss/claim adjustment expenses (loss/claim adjustment expense reserves) and incurred costs, with a corresponding charge to income. Claims related extra contractual obligations losses and bad-faith losses shall be included in losses. See individual business types for the accounting treatment for adjustment expenses related to extra contractual obligations and bad-faith lawsuits, as well as the accounting treatment for prepaid expenses as it relates to specific industries.

a. The liability for unpaid losses and claims shall be established regardless of any payments made to third party administrators, management companies or other entities except for capitated payments under managed care contracts. The liability for claims on non-capitated payments under managed care contracts shall be established in an amount necessary to pay the losses/claims irrespective of payments made to third party administrators, etc. The liability for claims on capitated payments under managed care contracts shall be established in an amount necessary to adjust all unpaid claims irrespective of payments to third parties with the exception that the liability is established net of capitated payments to providers. As loss or claims payments occur, from the third party administrators, management companies or other entities, to the policyholder or claimant, (except for capitated payments for managed care contracts) paid claims, losses or paid loss/claim adjusting liabilities are reduced. Note that guidance regarding the admissibility of loans and advances to providers which apply to health insurance and managed care contracts are addressed in SSAP No. 84—
Health Care and Government Insured Plan Receivables.

b. Prepayments to third party administrators or management companies or other entities that do not relate to services or adjusting for the underlying direct policy benefits are reported as 1) Aggregate write ins for miscellaneous expenses – Property and Casualty (Underwriting and Investment Exhibit Part 3); 2) Aggregate write ins for expenses – Life/Health (Exhibit 2 – General expenses) or 3) aggregate write ins for expenses (General Administrative Expenses) – health (Underwriting and Investment Exhibit Part 3).

c. Claims related extra contractual obligations losses and bad-faith losses shall be included in losses. See individual business types for the accounting treatment for adjustment expenses related.

5. The liability for unpaid LAE shall be established regardless of any payments made to third-party administrators, management companies or other entities except for capitated payments under managed care contracts for which the liability shall be reported net of capitated payments to providers. The liability for claims adjustment expenses on non-capitated payments under managed care contracts shall be established in an amount necessary to adjust all unpaid claims irrespective of payments made to third-party administrators, etc. The liability for claims adjustment expenses on capitated payments under managed care contracts shall be established in an amount necessary to adjust all unpaid claims irrespective of payments to third parties with the exception that the liability is established net of capitated payments to providers.

a. Prepayments to third party administrators or management companies or other entities that do not relate to services or adjusting for the underlying direct policy benefits are reported as 1) Aggregate write ins for miscellaneous expenses – Property and Casualty (Underwriting and Investment Exhibit Part 3); 2) Aggregate write ins for expenses – Life/Health (Exhibit 2 – General expenses) or 3) aggregate write ins for expenses (General Administrative Expenses) – health (Underwriting and Investment Exhibit Part 3).

Property/Casualty

Drafting Note: the following is within existing guidance. There are no proposed changes to the guidance in pars. 6.a., 6.b., and 6.c. However, there is new guidance proposed in 6.d. and 6.e. that was in pars. 4.a., 4.b., and 5.a. of the previous exposure draft. This wording is underlined.

6. The following are types of future costs related to property and casualty contracts, as defined in SSAP No. 50, which shall be considered in determining the liabilities for unpaid losses and loss adjustment expenses.

d. All prepayments (i.e., variable, fixed or bundled amounts) to third party administrators, management companies, or other entities for unpaid claims, losses and losses/claims adjustment expenses, shall be initially reported as a prepaid asset and nonadmitted in accordance with SSAP No. 29 – Prepaid Expenses.
These payments shall not be offset against any amounts required to be reported in accordance with paragraphs 4 or 5 within this guidance.

Consistent with the recognition criteria in paragraph 4, when the covered or insured events occurs the associated prepayments to third party administrators, management companies or other entities are reclassified proportionately from the prepaid nonadmitted asset to claims, losses or loss/claim adjustment expenses based on the amount of losses/claims or loss/claims adjustment expenses incurred to provide the benefit.

e. Prepayments to third party administrators or management companies or other entities that do not relate to services or adjusting for the underlying direct policy benefits are reported as miscellaneous underwriting benefits and are not included within the scope of SSAP No. 55.

Life, Accident and Health

Drafting Note: the following is within existing guidance. There are no proposed changes to the guidance in pars. 7.a., 7.b., 7.c. and 7.d. However, there is new guidance proposed in 7.e. that was in pars. 4.a., 4.b., and 5.a. of the previous exposure draft. This wording is underlined.

7. The following future costs relating to life and accident and health indemnity contracts, as defined in SSAP No. 50, shall be considered in determining the liability for unpaid claims and claim adjustment expenses:

e. In cases where insurers advance funds to third-party administrators, management companies or other entities prior to the occurrence of the claim who then, on behalf of the insurer, adjudicate the claim and make payments to insureds or other claimants, the guidance in paragraph 9 applies.

Managed Care

Drafting Note: the following is within existing guidance. There are no proposed changes to the guidance in pars. 8.a., 8.b., 8.c. and 8.d. However, there is new guidance proposed in 8.e. that was in pars. 4.a., 4.b., and 5.a. of the previous exposure draft. This wording is underlined.

8. The following costs relating to managed care contracts as defined in SSAP No. 50 shall be considered in determining the claims unpaid and claims adjustment expenses:

e. In cases where insurers advance funds to third-party administrators, management companies or other entities prior to the occurrence of the claim who then, on behalf of the insurer, adjudicate the claim and make payments to insureds or other claimants, the guidance in paragraph 9 applies.
Managed Care and Accident and Health

Drafting Note: New guidance is issued within par. 9, which is underlined. Existing par 9 is renumbered to par. 10, and all other pars within existing guidance (i.e., pars. 10 – 23, will be renumbered to 11 – 24, respectively.

9. In some instances, insurers advance funds to third-party administrators, management companies or other entities prior to the occurrence of the claim who then, on behalf of the insurer, adjudicate the claim and make payments to insureds or other claimants. In such cases the following guidance applies:

a. For capitated payments under managed care contracts, the liability for claims and claim adjusting expenses shall be established in an amount necessary to adjudicate and pay all unpaid claims irrespective of payments to third-party administrators, management companies or other entities, and is reported net of capitated payments to providers.

b. For non-capitated advance payments, the liability for unpaid losses/claims and related adjustment expenses shall be established regardless of any payments made to third-party administrators, management companies or other entities, and such payments shall be reported by the insurer as prepayments. Only when loss/claim and related adjusting expense payments are made by the third-party administrators, management companies or other entities, to the policyholder or claimant, shall the insurer’s liability (loss/claim or loss/claim adjustment expense reserves) be reduced. Prepayments to third party administrators or management companies or other entities that do not relate to services or adjusting for the underlying direct policy benefits are reported as (1) Aggregate write ins for expenses - Life/ Health (Exhibit 2 – General expenses) or (2) Aggregate write ins for expenses (General Administrative Expenses) - Health (Underwriting and Investment Exhibit Part 3)

Note that this guidance in paragraph 9 does not alter existing guidance regarding the admissibility of loans and advances to providers which apply to health insurance and managed care contracts which is addressed in SSAP No. 84—Health Care and Government Insured Plan Receivables.

* * * *

Thank you for considering interested parties’ comments. If you have any questions in the interim, please do not hesitate to contact us.

Sincerely,

D. Keith Bell Rose Albrizio

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Statutory Accounting Principles (E) Working Group

We have reviewed the proposed changes to SSAP No. 71 – Policy Acquisition Costs and Commissions as outlined in Ref. #2019-24. We question several elements of the proposal and strongly object to the revisions for the following reasons:

1. This is very much a substantive change to existing policy, contrary to the characterization in the published exposure draft.
2. The proposal dramatically alters the fundamental premise of statutory accounting by creating a situation in which certain historically period expenses, trail commission payments, are to be treated differently from other period expenses by way of an accrual methodology. This leads to:
   a. A hybrid of statutory, GAAP and tax accounting.
   b. Fundamentally and permanently different economics for products designed with trail commission payments, leading to the need for significant effort at primary writers to redesign and/or reprice such products, presumably at a cost to the consumer.
   c. Guaranteed renewable products, like Long Term Care Insurance, could be exposed to further rate increases if the fundamental profit dynamics of the products change as a result of the new reserving practices.
   d. New uncertainty within the statutory accounting framework as to which other period expenses should also be accrued or might be targeted for similar treatment.
   e. A situation whereby trail commission expenses have a greater impact on statutory capital than other, similar expenses.
   f. A disincentive for primary writers to align the interests of the writer, broker/agent and policyholder through trail commissions because of the unique treatment and resulting capital implications.
3. Should the proposed changes be adopted, primary writers will be exposed to new and substantial accounting and actuarial workload relating to the determination of accrual methodologies for each effected product and the related periodic ‘true-up’ required to adjust the new statutory reserves for actual performance. All this with no apparent benefit for the consumer, primary writer, investment community, or regulatory bodies.

cc: Julie Gann (jgann@naic.org), Robin Marcotte (rmarcotte@naic.org), Jim Pinegar (jpinegar@naic.org), Fatima Sediqzad (fsediqzad@naic.org), Jake Stultz (jstultz@naic.org)
The members of the AICPA NAIC Task Force (Task Force, which is a task force of the AICPA) would like to informally request clarifications on the following exposed Statutory Accounting Principles Working Group documents:

**Ref No. 2019-12: ASU 2014-17, Business Combinations - Pushdown Accounting, a Consensus of the FASB EITF**

Consistent with our comments submitted June 14 on the draft exposed at the 2019 Spring National Meeting, the Task Force believes the proposed revisions could be a significant change to current SAP and requests clarification as to what is meant by "audited reconciliation" and "audited support" in the proposed new paragraph 20 of SSAP 97. Would this be similar to adjustments made to the audited U.S. GAAP carrying value for par. 8.b.ii and 8.b.iv entities? For these adjustments, there is no "audited reconciliation" included in any financial statements. An insurance entity prepares a schedule to determine the required adjustments for purposes of its carrying value of the SCA, which is subject to audit procedures in relation to the insurer’s financial statements taken as a whole, but there is no reconciliation included in the audited financial statements of the SCA.

In the re-exposed document we note that the working group clarified, for companies that receive approval from their domiciliary commissioner to continue to admit the existing goodwill that has been pushed down on or before December 31, 2019, that this goodwill would be subject to the 10% of surplus limitation. We suggest that specific transition guidance be provided for companies that have not previously included this goodwill in the goodwill limitation calculation. We also suggest that the working group clarify whether this GAAP goodwill is subject to amortization under SSAP 68 (as it is not amortized under U.S. GAAP). We also request that specific transition guidance be added for companies that do not obtain approval from their domiciliary regulator to continue to admit goodwill pushed down from acquisitions prior to January 1, 2020. Given the proximity of these discussions to year-end 2019, the SAP Working Group may also want to consider whether it is too near year-end to adopt any changes for 2019, since a December 2019 adoption would likely not provide adequate time for capital planning for affected companies.
October 10, 2019

Dale Bruggeman, Chair
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street
Kansas City, MO 64106

Re: SSAP No. 71—Policy Acquisition Costs and Commissions

Dear Mr. Bruggeman:

Thank you for the opportunity to provide comments on Proposal 2019-24 from the Statutory Accounting Principles Working Group regarding Policy Acquisition Costs and Commissions. The Working Group voted to expose revisions to SSAP 71 – Policy Acquisition Costs and Commissions - for comment at the NAIC Summer Meeting on August 3, 2019, categorized as non-substantive, to clarify levelized commission guidance and to provide additional direction regarding certain commission obligations. I offer comments on behalf of our client, DRB Insurance Solutions, LLC, a licensed insurance producer (“DRB”).

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

The accounting issue is whether levelized commission arrangements that are linked to traditional elements (such as premium payments and policy persistency) should require the establishment of a liability for the full amount of the unpaid principal and accrued interest which may be paid to a third-party in the future based upon the occurrence of defined events outside the control of the parties involved. However, the persistency commission expense should be accrued proportionately over the policy period to which the commission relates and it should accrue only when fully earned and unavoidable, specifically since the payments to the funding agent are theoretically avoidable until the policy passes the anniversary year-end date.
NAIC Staff indicates that this proposal is to recommend clarifications to the existing levelized commissions guidance and provide additional guidance regarding commission obligations that are based on policy persistency. Questions received by NAIC staff relate to the use of levelized commission arrangements and when the liability for a commission structure that is based on annual persistency is required to be recorded as a liability in accordance with SSAP No. 5R-Liabilities, Contingencies and Impairments of Assets. Staff made the following recommendations:

1. A levelized commission arrangement (whether linked to traditional or nontraditional elements) require the establishment of a liability for the full amount of the unpaid principal and accrued interest payable to a third-party at the time the policy is issued.

2. The persistency commission is accrued proportionately over the policy period in which the commission relates to and is not deferred until fully earned.

However, we respectfully suggest that requiring the expensing at policy issuance of future levelized commission payments that are contingent upon policy persistency will likely establish a dangerous precedent requiring the accrual of liabilities for other predictable future expense payments for services or other benefits that are not yet payable. Examples may include payroll costs, commissions and expense allowances on reinsurance assumed, non-vested postemployment benefits and compensated absences and/or lease obligations.

Further, in accordance with SSAP No. 5R, key characteristics of a liability include: (1) a present duty or responsibility that entails settlement by probable future transfer of assets, (2) with little or no discretion to avoid the future sacrifice, and (3) the obligating event has already occurred. With respect to recognition of commission expense, the proposed revisions to SSAP No. 71 include the justifying statement that “The issuance of the policy is the obligating event under SSAP No. 5R.” However, this statement is factually inaccurate. The insurance company is not contractually obligated to pay future levelized commissions if the policy does not persist. No subsequent levelized commission ever becomes due unless the policy remains in-force through each subsequent anniversary date. Until the policy reaches each anniversary date, the insurance company is not obligated and has no present duty or responsibility to pay the commission.

Statutory Accounting and Principle-Based Reserving

The fundamental objective of statutory accounting is to measure solvency, as expressed in the Preamble to the Accounting Practices and Procedures Manual. Statutory Accounting Principles require expensing current amounts that are no longer available to pay policyholder claims in the future or that will have no value in liquidation. However, probable future levelized commission payments are payments that have not yet been made. Accordingly, the insurance company still has the cash or other assets that will ultimately be used to make those payments should the policies persist. Therefore, required accrual of levelized commissions appears inconsistent with the fundamental objective of measuring solvency.

Principle-Based Reserving (PBR) is a new shift in reserving approach and is expected to include consideration of commission payments within policy reserves. The addition of an accrual for levelized commissions would duplicate expenses on the Statement of Operations and again, function inconsistently with the assumptions contained in PBR.
Non-Substantive Change
Levelized commission programs began over thirty years ago, before the 1998 publication of Statutory Issue Paper No. 71 and the January 1, 2001 codification of Statutory Accounting Principles. The primary objectives of a levelized commission structure include aligning the interests of the customer, the agent, and the company and improved persistency from providing ongoing customer service. There is a duty to act in the best interests of the policyholder, as well as a compensation incentive, to make sure policies are well serviced so they stay in-force.

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

In conclusion, the proposed revision to SSAP 71 is clearly not “non-substantive” and would have substantial unintended consequences only some of which I have mentioned here. Accordingly, the proposal requires further substantive and policy analysis prior to consideration by the Working Group. Additionally, the expansive effect of this policy decision should be subject to open deliberation and public comment as the Working Group considers further action. Thank you for the opportunity to comment.

Very truly yours

GREENBERG TRAURIG, P.A.

Julie Mix McPeak

Julie Mix McPeak
October 11, 2019

Submitted electronically to jgann@naic.org; rmarcotte@naic.org; jpinegar@naic.org; fsediqzad@naic.org; and, jstultz@naic.org.

Mr. Dale Bruggeman
Chair of the Statutory Accounting Principles Working Group
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Dear Mr. Bruggeman,

We appreciate the opportunity to comment on the Statutory Accounting Principles Working Group (the “SAPWG”) exposure regarding NAIC’s Ref #2019-20 - Rolling Short-Term Investments (the “exposure”).

We agree that SSAP No. 2R – Cash, Cash Equivalents, Drafts and Short-Term Investments should not be utilized to mischaracterize long-term investments as short-term investments. We thus support revisions to exclude from SSAP No. 2R short-term investment structures purposely designed to mature at or around 364 days (often with affiliates) with full expectation that the investment structure will be renewed (rolled). We propose modest modifications to the recommendation, however, that we believe will support eliminating abuses of SSAP No. 2R while also ensuring that legitimate short-term investment activity continues under SSAP No. 2R.

The exposure sets forth “an overall principle that investments are permitted for short-term and cash equivalent reporting only if the reporting entity reasonably expects the investment duration to be realized (e.g., terminate / mature) on the designated maturity date” (the “overall principle”). We fully support the overall principle and believe it is essential that it be preserved. We believe, however, that certain elements of the exposure are not fully consistent with the overall principle – namely, commentary and scoping around 1) all affiliated SSAP No. 26R - Bonds investments and 2) the reacquisition of the same or substantially similar short-term investment immediately after maturity of a prior short-term investment. We address each of these items in greater detail below.

**Item 1 - all affiliated SSAP No. 26 investments**

The exposure states that: “by excluding all non-affiliated ‘bonds’ from the new guidance, the ‘normal’ recurring short-term / cash equivalent investments are not expected to be impacted.” This implies that “normal” recurring short-term / cash equivalent investments can only occur between unaffiliated entities. We disagree; we believe that the overall principle should apply to all investments, not just those that are affiliated. We also believe the concern that including unaffiliated investments would inadvertently scope in U.S. Treasury-bills, commercial paper, certificates of deposit, etc., where a reporting entity may continuously reacquire the same or a substantially similar short-term investment of such nature immediately after maturity of such a prior short-term investment, can and should be addressed otherwise (see below).
Item 2 - the reacquisition of the same or substantially similar short-term investment immediately after maturity of a prior short-term investment

The exposure states that “the sale or maturity of an investment, with a reacquisition of the same or substantially similar security within a 1-year timeframe, would preclude the reporting entity from reporting the currently held security as a cash equivalent or short-term investment regardless of the maturity date. (This one-year timeframe prevents reporting of recurring ‘re-acquisitions’ as cash equivalents or short-term investments.) (This provision is similar to the one regarding ‘rolled’ securities but clarifies that the ‘settlement’ of a security with a reacquisition does not prevent application of the new concepts in determining cash equivalent or short-term reporting.) (NAIC staff highlights that this restriction is necessary particularly with the use of ‘net settlement’ structures with affiliates in which no cash is exchanged.)

The reacquisition of the same or a substantially similar short-term investment immediately after the maturity of a prior short-term investment should be permitted as long as the following proposed conditions are met that substantiate and evidence that the overall principle has been factually satisfied:

1. The prior short-term investment / cash equivalent has been fully, contractually settled in cash on or prior to a maximum original maturity date of 364 days (this provision would exclude “net settlement” structures from being eligible under SSAP No. 2R).

2. The cash used to satisfy the prior short-term investment / cash equivalent cannot have been directly or indirectly (i.e., through a separate entity) provided by the same reporting entity.

We believe that incorporating the above elements would effectively exclude unaffiliated cash equivalent / short-term investments such as U.S. Treasury bills, commercial paper, certificates of deposits, and other legitimate short-term investment activity from the exposed provisions, but in a manner consistent with the overall principle and the application of SSAP No. 2R.

* * * * * * *

We look forward to continue to work with the SAPWG to refine this proposal to help achieve appropriate regulatory objectives while preserving the original principle of SSAP No. 2R for the betterment of the insurance industry, its reporting entities and its policyholders. We welcome any questions you may have for us.

Sincerely,

_________________
Joseph W. Wittrock
Senior Vice President and Chief Investment Officer

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October 11, 2019

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: Exposure Draft Released for Comment During NAIC National Meeting, Ref. #2019-12

Dear Mr. Bruggeman:

Teachers Insurance and Annuity Association of America (“TIAA”) appreciates the opportunity to comment on the exposure drafts released for comment by the Statutory Accounting Principles (E) Working Group (the “Working Group”) during the National Association of Insurance Commissioners (“NAIC”) Summer National Meeting in New York. We respectfully submit the following comments and suggestions for modifications to Exposure Draft Ref. #2019-12, ASU 2014-17, Business Combinations – Pushdown Accounting, a Consensus of the FASB Emerging Issues Task Force (the “Exposure Draft”).

I. About TIAA

Founded in 1918 in the state of New York, TIAA’s initial mission was to improve the quality of life for teachers in retirement. Today, TIAA is the leading provider of retirement and financial services for those in academic, research, medical, and cultural fields. Over our century-long history, TIAA’s mission has always been to aid and strengthen the institutions and participants we serve and to provide financial products that meet their needs. Today, TIAA is a Fortune 100 company with over $1 trillion in assets under management and administration, and our

investment model and long-term approach aim to benefit the five million retirement plan participants we serve across more than 15,000 institutions.\textsuperscript{2} We are among the highest rated insurance companies in the U.S. by the four leading rating agencies: A.M. Best, Fitch, Moody’s Investors Service, and Standard & Poor’s.\textsuperscript{3} With our strong nonprofit heritage, we remain committed to the mission we embarked on in 1918 of serving the financial needs of those who serve the greater good.

To carry out this mission, our enterprise has evolved to include a diverse group of entities offering our customers a range of financial services, including asset management, retail and banking services. These diverse groups of companies help us serve customers and clients more effectively.

II. Proposed Revisions in the Exposure Draft

The Exposure Draft includes the following proposed revisions (with proposed changes to SSAP No. 68, Section 9):

**Issue: ASU 2014-17, Business Combinations – Pushdown Accounting, a Consensus of the FASB Emerging Issues Task Force**

**Status:** On April 6, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No 68—Business Combinations and Goodwill and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities to reject ASU 2014-17, Business Combinations – Pushdown Accounting for statutory accounting as well as explicitly prohibit the use of pushdown accounting under statutory accounting, which includes all entities accounted for under SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies and SSAP No. 97.

On August 3, 2019, the Statutory Accounting Principles (E) Working Group exposed this agenda item with a request for comments on the three options listed below. Additionally, to ensure that goodwill resulting from an insurance reporting entity’s acquisition of an SCA when pushdown is applied is captured within the goodwill admittance limitation, the exposure includes limited revisions to reference this goodwill in SSAP No. 68—Business Combinations and Goodwill, paragraph 9. (Note: Information provided during the Summer National Meeting on the history of pushdown and information from AICPA and industry representatives has been captured within this agenda item under the “Activity to Date” section.)

The options for Working Group consideration include:

1) **Complete rejection of pushdown accounting.** As pushdown is now an election for SEC / U.S. GAAP filers, reporting entities can avoid use of pushdown if prohibited for statutory accounting. (NAIC staff

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\textsuperscript{2} Data are as of June 30, 2019.

\textsuperscript{3} For stability, claims-paying ability, and overall financial strength, TIAA is one of only three insurance groups in the United States to currently hold the highest possible rating from three of the four leading insurance company rating agencies: A.M. Best (A++ rating affirmed as of June 2019), Fitch (AAA rating affirmed as of May 2019) and Standard & Poor’s (AA+ rating affirmed as of October 2018), and the second-highest possible rating from Moody’s Investors Service (Aa1 rating affirmed as of September 2018).
would propose a prospective effective date if electing this option to avoid restatement of those entities that have previously elected pushdown.)

2) **Permission to use pushdown for all non-insurance entities.** This option would increase optionality into the statutory financial statements. If permitted, this approach would result in different SCA values and goodwill calculations for those that follow the guidance in SSAP No. 68 and those that utilize pushdown. Under SSAP No. 68, acquired SCAs do not write-up their assets or liabilities to fair value and goodwill is calculated as the difference between purchase price and book value. Under U.S. GAAP pushdown, acquired SCAs write-up their assets and liabilities to fair value, and goodwill is calculated as the difference between the purchase price and the fair value of the acquired entity. With pushdown, the goodwill is reported at the SCA level. As such, goodwill will be an indefinite asset unless it is identified as impaired. (Under U.S. GAAP, private entities and not-for-profit entities can elect to amortize goodwill over a 10-year period, but this is not an election for public entities.) **If this option is supported, NAIC staff would recommend that the goodwill admittance limitation capture goodwill from an insurance entity’s acquisition of an SCA that is reported on the SCA financial statements.** (This option would not permit pushdown for insurance SCAs (8.b.i entities).

(If this option is considered, NAIC staff would propose restrictions on the use of pushdown that differ from U.S. GAAP. For example, under U.S. GAAP, a reporting entity could subsequent elect pushdown accounting in any reporting period after original acquisition. If pushdown was permitted, NAIC staff would propose to require the election at original acquisition and not allow subsequent elections.)

3) **Permit pushdown if elected by SEC Registrants, excluding non-insurance entities.** Although this option would introduce different accounting by type of reporting entity, it is consistent with when pushdown would have been applied under prior statutory accounting guidance. (Under the old SEC provisions, pushdown was only permitted when meeting certain SEC requirements.) This would seemingly allow the companies that have historically utilized pushdown under the SEC rules to continue acquisitions under that prior approach. **If this option is supported, NAIC staff would recommend that the goodwill admittance limitation capture goodwill from the acquisition of an SCA that is reported on the SCA financial statements.** (Also, **NAIC staff would propose restrictions to the provisions to ensure the election is made at the time of original acquisition.**) (This option would not permit pushdown for insurance SCAs (8.b.i entities).

Exposed Edits to SSAP No. 68—**Business Combinations and Goodwill:**

8. For those acquired SCA entities accounted for in accordance with paragraph 8.b.i. of SSAP No. 97 under the statutory purchase method, the historical bases of the acquired entity shall continue to be used in preparing its statutory financial statements. Therefore, pushdown accounting is not permitted.

9. Positive goodwill recorded under the statutory purchase method of accounting shall be admitted subject to the following limitation: Positive goodwill from all sources, including life, accident and health, and deposit-type assumption reinsurance and goodwill resulting from the acquisition of an SCA by the insurance reporting entity that is reported on the SCA’s financial statements (resulting from the application of pushdown accounting), is limited in the aggregate to 10% of the acquiring entity’s capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted. When negative goodwill exists, it shall be recorded as a contra-asset. Positive or negative goodwill resulting from the purchase of an SCA, joint venture, partnership or limited liability company shall be amortized to unrealized capital gains and losses on investments over the period in which the acquiring entity benefits economically, not to exceed 10 years. Positive or negative goodwill resulting from life, accident and health, and deposit-type assumption reinsurance shall be amortized to operations as a component of general insurance expenses over the period in which the assuming entity benefits economically, not to exceed 10 years. Goodwill shall be evaluated separately for each transaction.**(INT 01-18)**
III. **TIAA Comments on Proposed Revisions**

*TIAA strongly encourages the NAIC to thoroughly engage with the industry on Exposure Draft Ref. #2019-12 Business Combinations – Pushdown Accounting and the classification of the proposal as substantive or non-substantive.*

We note that the NAIC classifies as “substantive listings” those items that require a new issue paper and SSAP to address the issue. Once items are placed on this listing, they are prioritized and the formal maintenance policy is followed. Conversely, “nonsubstantive listings” are those items that are considered editorial or technical in nature and for which a new SSAP will therefore not be developed. In other words, a revision to a SSAP for these items will not be deemed to modify its conclusion or original intent.4

While the NAIC categorized the revisions in the Exposure Draft as “nonsubstantive,” without industry analysis and further clarity in application, we believe the proposed changes to SSAP No. 68, paragraph 9, which would apply a 10% limitation on goodwill, could represent a substantive change in accounting. Without conducting an impact assessment and publishing a more thorough issue paper, we feel it is difficult for the NAIC to conclude that the proposed revisions do not modify the conclusion or original intent of the guidance with regards to all admitted Subsidiary, Controlled and Affiliated Entities (“SCAs”).

We acknowledge the NAIC staff’s concerns with goodwill; however, we believe staff can gain insight through deeper engagement with the industry regarding the structure of insurance entities, and the creation, accounting, and reporting of goodwill. Additionally, while we understand there are concerns with regards to goodwill treatment to non-insurance entities, we believe the NAIC can more thoroughly consider the purpose of those entities and their support of the insurance parent as these entities typically provide operational support as well as dividends that directly support policyholder obligations.

*TIAA supports pushdown accounting Option 2 as proposed by the NAIC.*

TIAA does not support a complete rejection of pushdown accounting (Option 1), nor do we believe that pushdown should be permitted if elected by SEC registrants (excluding non-insurance entities) (Option 3), as we predict this approach would create competitive disadvantages and unnecessary inconsistencies in the treatment of goodwill among entities.

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owned by an insurer. We recommend that the NAIC continue allowing pushdown for all non-
insurance entities (Option 2).

*TIAA recommends the NAIC partner with industry to conduct an impact assessment.*

Given the potential substantive nature of the proposal, we recommend that industry
participants partner with the NAIC to evaluate the Exposure Draft, including conducting an
industry impact assessment. The assessment will include an analysis of the types of insurance
entities impacted by the NAIC’s proposal and the potential effects on these entities'
organizational structure and domicile. The information gathered as a result of the impact
assessment can assist in preventing the formation of competitive disadvantages and other
unintended negative consequences among the affected entities. We welcome the opportunity
to assist the NAIC in identifying, evaluating and driving such assessment.

*TIAA encourages the NAIC to discuss transitional guidance with the industry, and consider
responses to FASB’s proposed treatment of goodwill.*

As noted above, given the potential substantive nature of the NAIC’s proposed accounting
changes, and in light of our view that an industry impact assessment be conducted before
these changes are finalized, we believe transitional guidance, in any form (*i.e.*, disclosure,
prospective, effective dates, etc.), be carefully discussed with all interested parties before
proposal.

Additionally, we recognize that the Financial Accounting Standards Board (“FASB”) is also
considering the treatment of goodwill and, as such, we recommend that NAIC consider the
responses to the FASB Invitation to Comment on File Reference No. 2019-720, Identifiable
Intangible Assets and Subsequent Accounting for Goodwill. As many of the SCAs within
scope of the NAIC proposal report goodwill on a GAAP basis, any future changes to GAAP
could impact or potentially address the NAIC’s concerns.

IV. **Conclusion**

TIAA applauds the NAIC’s continued focus on this issue, and we appreciate the opportunity to
comment on the Exposure Draft. We recommend that the NAIC classify Exposure Draft Ref.
#2019-12 Business Combinations – Pushdown Accounting as **substantive** and work with the
industry to perform an impact assessment that would inform an issue paper. We welcome the

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5 FASB Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* (July
opportunity to discuss our views and recommendations in greater detail and any questions you have.

Sincerely,

Oluseun Salami
Issue: SIRI – Equity Interests

Check (applicable entity):

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<th>Description of Issue:</th>
<th>P/C</th>
<th>Life</th>
<th>Health</th>
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<tr>
<td>Modification of existing SSAP</td>
<td>✓</td>
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<td>New Issue or SSAP</td>
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This agenda item has been drafted pursuant to direction received during the 2019 Spring National Meeting to clarify what shall be captured in Line 13: 10 Largest Equity Interests of the Supplemental Investment Risks Interrogatories (SIRI). The intent of the SIRI is to assist regulators in reviewing compliance with state investment limitations and analyzing the risks inherent in an entity’s investment portfolio. However, from questions received on certain categories, it has been identified that clarity is needed to ensure consistent reporting and that the desired aggregation of risks is reported.

This agenda item is being considered subsequent to revisions incorporated to SIRI Line 2: 10 Largest Exposures to a Single Issuer / Borrower / Investment and the proposal of a new reporting category for “fund managers.” These clarification items were exposed by the Blanks (E) Working Group during the 2019 Spring National Meeting and adopted for 2019 year-end reporting during the Blanks (E) Working Group June 24 conference call.

Pursuant to the revisions previously recommended, it is suggested that the following concepts be followed in aggregating investments for SIRI:

- Investments held in diversified funds do not need to be separately aggregated with other investments due to the fund diversification. For this exclusion, only funds in which the issuer can assert that the fund is diversified in accordance with the 1940 Investment Act are excluded from aggregation.

- Investments held in non-diversified funds shall be aggregated with other exposures for reporting in SIRI. This aggregation shall be based on the underlying investments in funds (or other commingled investment structures). For example, if a non-diversified was issued by BlackRock, the investment exposure is not to BlackRock, but the investments captured within the non-diversified fund. To further expand, if the non-diversified fund held investments from Exxon Mobile, then those investments shall be aggregated with other investments held from Exxon Mobile (held directly or in a non-diversified fund) to determine the overall aggregate exposure to Exxon Mobile. (This requires a look-through into non-diversified funds.)

During the 2019 Spring National Meeting, two options were presented to clarify the aggregation of equity interests in Line 13. Pursuant to informal comments received, as well as the concepts noted above, this agenda item proposes revisions in accordance with the proposed “Option 2”. This approach excludes diversified funds from the look-through / aggregation requirement and clarifies that a look-through is required to non-diversified equity funds for aggregation and reporting. It also clarifies that any equity interest (regardless of diversification) that individually qualifies as one of the largest equity interests shall be captured in SIRI Line 13.
Existing Authoritative Literature:

**Supplemental Investment Risk Interrogatories (SIRI)**

This set of Supplemental Interrogatories is to assist regulators in identifying and analyzing the risks inherent in the entity's investment portfolio. The Supplemental Investment Risks Interrogatories apply only to general account assets. These lines were determined based upon the investment categories contained in the NAIC Statutory Statement and considered as invested assets. The reported amounts are to be consistent with net admitted amounts reported by the entity in the statement and supporting schedules, not on a consolidated basis. Compute the percentage calculations by dividing the reported amount by the total admitted assets reported in Line 1 of the Interrogatories unless otherwise indicated. It is recommended that the first step in responding to this set of Interrogatories is for the person preparing this document to read through the Interrogatories to gain an understanding of the reporting requirements.

**Line 13.02 through 13.11**

Report the amounts and percentages of admitted assets held in the ten largest equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities (including Schedule BA equity interests), and excluding money market and bond mutual funds listed in Part Six, Sections 2(f) and (g) of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* as exempt or NAIC 1).

Determine the ten largest equity interests by first aggregating investments included in this line by issuer. For example, the reporting entity owns preferred stock of the XYZ Company of $600,000 and common stock of the XYZ Company of $300,000. The total is $900,000 ($600,000+$300,000). The reporting entity also owns bonds issued by the XYZ Company of $500,000 that are excluded from this calculation because bonds are debt instruments. Other equity securities include partnerships and Limited Liability Companies (LLC) and any other investments reported in Schedule BA classified as equity.

**SIRI – As Modified Following the Blanks (E) Working Group June 2019 Conference Call – 2019-13BWG:**

**Line 2**

Report the single 10 largest exposures to a single issuer/borrower/investment.

Determine the ten largest exposures by first, aggregating investments from all investment categories (except the excluded categories) by issuer. The first six digits of the CUSIP number can be used as a starting point; however, please note that the same issuer may have more than one unique series of the first six digits of the CUSIP. For example, the reporting entity owns bonds issued by the XYZ Company of $500,000 and common stock of the XYZ Company of $600,000. In addition, the reporting entity has a mortgage loan to the XYZ Company of $300,000. The total exposure to Issuer XYZ Company is $1.4 million ($500,000+$600,000+$300,000).

For funds that are not diversified within the meaning of the Investment Company Act of 1940, insurance reporting entities are required to identify actual exposures and aggregate those exposures with directly held investments to determine the 10 largest exposures. For example, if a reporting entity directly holds a significant number of investments in Exxon Mobil and holds a non-diversified closed-end fund with a high concentration of Exxon Mobil, the reporting entity shall aggregate the direct investments with the investments in the closed-end funds to determine the aggregate investment risk to Exxon Mobile.
Ref #2019-19

Excluding: U.S. government securities (Part Six, Section 2(e)), U.S. government agency securities (Part Six, Section 2(e)),

those U.S. Government money market funds (Part Six, Section 2(f)) listed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office as exempt;

property occupied by the company; and

policy loans.

Also exclude asset types that are investment companies (mutual funds) and common trust funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b) (1)].

All SEC and foreign registered funds (open-end, closed-end, UIT and ETFs) and common trust funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b) (1)].

Line 14.06 through 14.15 Report the investments held in the ten largest fund managers, with allocation between funds that are diversified or non-diversified in accordance with the meaning of the Investment Company Act of 1940. This should include all "funds" regardless of the type of fund (private placement, mutual fund, exchange-traded fund, closed-end fund, money market mutual fund, etc.), reporting schedule or underlying investments captured in a fund.

Determine the ten largest fund managers by aggregating all "fund" investments by fund manager. For example, if a reporting entity holds a BlackRock SVO-Identified Bond ETF (diversified within the meaning of the Investment Company Act of 1940) reported on Schedule D-1 at $500,000, four BlackRock diversified mutual funds reported on Schedule D-2 at $2,200,000 and two BlackRock non-diversified closed-end funds totaling $1,500,000, the reporting entity shall report their aggregated investment in BlackRock funds of $4,200,000, with $2,700,000 in diversified funds and $1,500,000 in non-diversified funds.

Activity to Date (issues previously addressed by the Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

During the 2019 Spring National Meeting, the Statutory Accounting Principles (E) Working Group sponsored a blanks proposal (2019-13BWG) to clarify the instructions for Line 2: 10 Largest Exposures and to incorporate a new category for fund managers (Line 14). These revisions were adopted during the Blanks (E) Working Group June 24, 2019 conference call. (The revisions are detailed above.) Also, during the 2019 Spring National Meeting, the Working Group received two options to consider revisions to Line 13: 10 Largest Equity Interests. These proposed revisions would clarify that reporting entities should always look-through funds for aggregation (option one) or add provisions that would remove diversified funds from the look-through requirement (option two):

- **Option One**: Further expansion of the instruction to identify that reporting entities shall look-through all funds (except for the money market mutual funds and SVO-Identified bond funds) to aggregate equity interests, with explicit identification of any equity fund that qualifies as one of the 10 largest interests. (This option would not be a change in guidance but would explicitly clarify the existing requirement.)
Report the amounts and percentages of admitted assets held in the ten largest equity interests (including equity funds that qualify individually as one of the largest equity interests, and a look-through of investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other security securities (including Schedule BA equity interests), and excluding money market and bond mutual funds listed in Part Six, Section 2(f) and (g) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office as exempt or NAIC 1.

Determine the ten largest equity interested by first aggregating investments included in this line by issuer. For example, the reporting entity owns preferred stock of the XYZ Company of $600,000 and common stock of XYZ Company of $300,000 and $100,000 of XYZ identified through a look-through of a diversified stock mutual fund reported on Schedule D-2-2. The total is $910,000,000 (600,000+300,000+100,000). The reporting entity also owns bonds issued by XYZ Company of $500,000 that are excluded from this calculation because bonds are debt instruments. Other equity securities include partnerships and Limited Liability Companies (LLC) and any other investments reported in Schedule BA as equity.

- **Option Two:** Incorporate revisions to exclude aggregation of equity interests in diversified funds. With this approach, an entity would only need to look-through funds that are not diversified in accordance with the Investment Company Act of 1940 to aggregate their ten largest equity interests. (This change would still require explicit identification of any equity funds that qualifies as one of the 10 largest interests.)

Report the amounts and percentages of admitted assets held in the ten largest equity interests (including equity funds that qualify individually as one of the largest equity interests, and a look-through of investments in the shares of non-diversified mutual funds and ETFs, preferred stocks, publicly traded equity securities, and other security securities (including Schedule BA equity interests), and excluding money market and bond mutual funds listed in Part Six, Section 2(f) and (g) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office as exempt or NAIC 1. Equity interests in all funds that are diversified in accordance with the Investment Company Act of 1940 do not need to be individually assessed and aggregated to determine the ten largest equity interests. For funds that are not diversified within the meaning of the Investment Company Act of 1940, insurance reporting entities are required to identify actual equity interests within the fund and aggregate those equity interests to determine their ten largest equity interests.

Determine the ten largest equity interested by first aggregating investments included in this line by issuer. For example, the reporting entity owns preferred stock of the XYZ Company of $600,000 and common stock of XYZ Company of $300,000 and $50,000 of XYZ identified through a look-through of a non-diversified stock closed-end fund reported on Schedule D-2-2. The total is $9950,000 (600,000+300,000+50,000). The reporting entity also owns bonds issued by XYZ Company of $500,000 that are excluded from this calculation because bonds are debt instruments. The reporting entity may also have exposure to equity interests in XYZ through mutual funds that are excluded from this calculation as the funds are diversified within the meaning of the Investment Company Act of 1940. Other equity securities include partnerships and Limited Liability Companies (LLC) and any other investments reported in Schedule BA as equity.

Information or issues (included in Description of Issue) not previously contemplated by the Working Group: None

Staff Recommendation: NAIC staff recommends that the Working Group expose this agenda item with the intent to sponsor a blanks proposal to clarify what should be captured in SIRI Line 13: 10 Largest Equity Interests. These proposed blanks revisions clarify that a look-through should only occur for non-diversified funds, and that investments within a diversified fund investment shall be excluded from an aggregation requirement to other equity investments. It also clarifies that any equity interest (regardless of diversification) that individually qualifies as one of the largest equity interests shall be captured in SIRI Line 13. This is consistent with the Option 2 approach presented at the 2019 Spring National Meeting. Additionally, the revisions expand the guidance to include SVO-Identified Bond ETFs, and SVO-Identified investments with characteristics of fixed-income investments as specific exclusions from the listing. Comments from regulators are specifically requested on these exclusions.

Proposed Revisions to the annual statement instructions for SIRI Line 13: Ten Largest Equity Interests:

Report the amounts and percentages of admitted assets held in the ten largest equity interests (including equity funds that qualify individually as one of the largest equity interests, and a look-through of investments in the shares of non-diversified mutual funds and ETFs, preferred stocks, publicly traded equity securities, and other security securities (including Schedule BA equity interests), and excluding money market and bond mutual funds listed in Part Six, Section 2(f) and (g) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office as exempt or NAIC-1. Equity interests in all funds that are diversified in accordance with the Investment Company Act of 1940 do not need to be individually assessed and aggregated to determine the ten largest equity interests. For funds that are not diversified within the meaning of the Investment Company Act of 1940, insurance reporting entities are required to identify actual equity interests within the fund and aggregate those equity interests to determine their ten largest equity interests.

Determine the ten largest equity interested by first aggregating investments included in this line by issuer. For example, the reporting entity owns preferred stock of the XYZ Company of $600,000, and common stock of XYZ Company of $300,000 and $50,000 of XYZ identified through a look-through of a non-diversified stock closed-end fund reported on Schedule D-2-2. The total is $950,000 (600,000+300,000+50,000). The reporting entity also owns bonds issued by XYZ Company of $500,000 that are excluded from this calculation because bonds are debt instruments. The reporting entity may also have exposure to equity interests in XYZ through mutual funds that are excluded from this calculation as the funds are diversified within the meaning of the Investment Company Act of 1940. Other equity securities include partnerships and Limited Liability Companies (LLC) and any other investments reported in Schedule BA as equity.

The following funds shall also be excluded from aggregation as equity interests: SVO-Identified U.S. Direct Obligations / Full Faith And Credit Exempt List of Money Market Mutual Funds, SVO-Identified Bond ETFs, SVO-Identified Bond Mutual Funds and SVO Identified fund investments with underlying characteristics of fixed-income instruments, which do not contain underlying equities and that are outlined within the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

Staff Review Completed by: Julie Gann – May 2019

Status:
On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions that clarify what should be captured in SIRI Line 13: 10 Largest Equity Interests, noting that a look-through should only occur for non-diversified funds. The revisions
also exclude Securities Valuation Office (SVO)-Identified Bond Exchange-Traded Funds (ETFs) and SVO-
Identified investments with underlying characteristics of fixed-income investments from this equity interrogatory. 
With exposure, a referral was directed to the Capital Adequacy (E) Task Force with a request for clarification on 
the impact, if any, these changes may have to risk-based capital.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to 
SIRI Line 13: 10 Largest Equity Interests of the blanks, as final, to clarify that a look-through should only occur 
for non-diversified funds, and that investments within a diversified fund investment shall be excluded from an 
aggregation requirement to other equity investments. Additionally, the revisions expand the guidance to include 
SVO-Identified Bond ETFs, and SVO-Identified investments with characteristics of fixed-income investments as 
specific exclusions from the listing. These revisions do not change the Accounting Practices and Procedures 
Manual, but will be forwarded to the Blanks (E) Working Group.
Issue: Wash Sale Disclosure

Check (applicable entity):

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<tr>
<th>Modification of existing SSAP</th>
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<th>Health</th>
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<tr>
<td>New Issue or SSAP</td>
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<td>Interpretation</td>
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Description of Issue: This agenda item has been drafted to consider revisions to the wash sale disclosure captured in SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The wash sale guidance was revised in 2017 to 1) clarify what types of investment are subject to the wash sale disclosure, 2) respond to several comments from interested parties, and 3) clarify what investments are subject to and what investments were exempt from this disclosure.

NAIC staff have been informed by industry that the tracking of wash sales can be very time-consuming and uses a large amount of resources while not necessarily responding to the main risks associated with these transactions. Investments sold and repurchased during the same reporting period, such as sold on May 1 and repurchased on May 20 and then held at the reporting date do not pose any greater risk than if the investments had been held throughout that period and at the period end date. The real risk with these transactions is investments that are sold prior to the end of a reporting period and then repurchased shortly after that date.

Existing Authoritative Literature:

- SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities provides the definition of a wash sale and the disclosure requirements.

- U.S. GAAP provides limited guidance on wash sales, mostly to identify that wash sales are captured as “sales” unless there is a concurrent contract to repurchase or redeem the transferred financial asset. (There is no definition or required disclosure for wash sales under U.S. GAAP.)

- The SEC defines a wash sale as follows:
  
  A wash sale occurs when you sell or trade securities at a loss and within 30 days before or after the sale you:

  - Buy substantially identical securities,
  - Acquire substantially identical securities in a fully taxable trade, or
  - Acquire a contract or option to buy substantially identical securities.

  Internal Revenue Service rules prohibit you from deducting losses related to wash sales. For more information about wash sales, read IRS Publication 550, Investment Income and Expenses (Including Capital Gains and Losses).

- The IRS has a similar definition to the SEC and disallows the recognition of losses for wash sales:

  A wash sale occurs when you sell or trade stock or securities at a loss and within 30 days before or after the sale you:
Buy substantially identical stock or securities,
Acquire substantially identical stock or securities in a fully taxable trade,
Acquire a contract or option to buy substantially identical stock or securities, or
Acquire substantially identical stock for your individual retirement account (IRA) or Roth IRA.

If you sell stock and your spouse or a corporation you control buys substantially identical stock, you also have a wash sale.

If your loss was disallowed because of the wash sale rules, add the disallowed loss to the cost of the new stock or securities (except in (4) above). The result is your basis in the new stock or securities. This adjustment postpones the loss deduction until the disposition of the new stock or securities. Your holding period for the new stock or securities includes the holding period of the stock or securities sold.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):
Agenda item 2017-23 included clarification that money market mutual funds are excluded from the wash sale disclosure. Further, agenda item 2017-31 clarified that all cash equivalents, derivative instruments and short-term investments with credit assessments equivalent to an NAIC 1-2 designation are excluded from the disclosure.

Information or issues (included in Description of Issue) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:
It is recommended that the Working Group move this agenda item to the active listing, categorized as nonsubstantive, and expose draft revisions to clarify that only investments that meet the definition of a wash sale in accordance with SSAP No. 103R, which are purchased or sold prior to a reporting period end and sold or repurchased after that reporting date would be subject to the wash sale disclosure. This will eliminate the need to report transactions that meet the wash sale criteria in SSAP No. 103R that are sold and purchased within the same reporting period. Wash sales that cross either a quarterly or annual reporting period must be disclosed.

Proposed Revisions to SSAP No. 103R:

28.i. A reporting entity shall disclose the following information for wash sales, as defined in paragraph 12, involving transactions for securities with an NAIC designation of 3 or below, or that do not have an NAIC designation (excluding all cash equivalents, derivative instruments as well as short-term investments with credit assessments equivalent to an NAIC 1-2 designation). This disclosure shall be included in the financial statements for when the investment was initially sold and is only applicable for sales and purchases that cross quarter-end or year-end reporting periods. For example, if the investment was sold December 20, 2017, and reacquired on January 10, 2018, the transaction shall be captured in the wash sale disclosure included in the year-end 2017 financial statements, while an investment sold on May 1, 2019 and reacquired on May 20, 2019 would not be required to be disclosed:

i. A description of the reporting entity’s objectives regarding these transactions;
ii. An aggregation of transactions by NAIC designation 3 or below, or that do not have an NAIC designation;

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

iv. The book value of securities sold;

v. The cost of securities repurchased; and

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

Staff Review Completed by:
Jake Stultz—June 2019

Status:
On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as illustrated above, to clarify that only investments that meet the definition of a wash sale in accordance with SSAP No. 103R that cross reporting period-end dates would be subject to the wash sale disclosure.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as final, to clarify that only investments that meet the definition of a wash sale in accordance with SSAP No. 103R that cross reporting periods are subject to the wash sale disclosure. This eliminates the need to report transactions that meet the wash sale criteria in SSAP No. 103R that are within the same reporting period. Wash sales that cross either a quarterly or annual reporting period must be disclosed.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Going Concern

Check (applicable entity):

- Modification of existing SSAP
- New Issue or SSAP
- Interpretation

P/C | Life | Health
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Description of Issue:
This agenda item has been drafted due to the prevalence of SCAs being identified as a “going concern” in 2018 audit reports for SCA Sub 2 filings. The going concern principle is the assumption that a company will continue into the foreseeable future, unless there is evidence to the contrary. During a financial statement audit, the auditor has an obligation to review the company’s ability to continue as a going concern. If there is substantial doubt about the company’s ability to continue in the future, a going concern qualification is supposed to be included in the auditor’s opinion of the company’s financial statements. Indicators of going concern can include the following:

- Negative trends such as declining sales, increasing costs, recurring losses, adverse financial ratios, etc.
- Legal proceedings against the company, which may include pending liabilities and penalties related to the violation of environmental or other laws
- Loss or expiration of a key license or patent
- Default on a loan or inability to secure new financing
- Loss of a major customer or key supplier

Under statutory accounting, the investment in a company with a going concern audit opinion must be nonadmitted in the reporting insurance entity’s financial statements. However, statutory accounting procedures do not specify any action to be taken in the event that a going concern is noted in any other part of the audit report aside from the audit opinion. Over the last year there have been a few instances in which the audit opinions did not explicitly detail the going concern, but the notes in the audited financial statements identified that there was a going concern. (In one situation, the audit opinion originally reflected a going concern, but the audit opinion was refiled with the NAIC to eliminate the reference from the audit opinion. In this resubmission, the going concern for the company was still detailed in the audited financial statements.)

One of the key foundation concepts of statutory accounting is conservatism. Conservative valuation procedures provide protection to policyholders against adverse fluctuations in financial condition or operating results. Statutory accounting should be reasonably conservative over the span of economic cycles and in recognition of the primary responsibility to regulate for financial solvency. As such, if an unalleviated going concern is mentioned in any part of the audit report or accompanying financial statements / notes, the value of the SCA should be nonadmitted.

Existing Authoritative Literature:
SSAP No. 97:

Paragraph 8
   c. The following provides guidance regarding the audits for entities covered under paragraph 8.b.:
      i. The investment in the SCA shall be nonadmitted if the audited financial statements include substantial doubt about the entity’s ability to continue as a going concern. Additionally, the investment shall be nonadmitted on the basis/contents of the audit opinion as detailed in paragraph 21.

Paragraph 21
   e. The investment shall be nonadmitted if the audit opinion contains explanatory language indicating that there is substantial doubt about the investee’s ability to continue as a going concern.

Exhibit C – Implementation Questions and Answers

5. Q - Does the audit opinion provided on the subsidiaries financial statements have to be clean or unqualified in order for the SCA investment to be admitted?

5.1 A – Paragraph 21 addresses various opinions that can be issued in which an entity can record certain investments under the GAAP Equity method of accounting. In certain cases, such as when the audit opinion is a disclaimer of opinion or there is indication that there is substantial doubt about the entity’s ability to continue as a going concern, the guidance states the investment shall be nonadmitted. In addition, if there is a qualified opinion due to a departure from GAAP (or an adverse opinion) or due to a scope limitation, the investment shall be nonadmitted unless the impact of the departure is quantified within the audit opinion (see quantification exception related to the valuation of a U.S. insurance entity on the basis of U.S. statutory accounting principles discussed below). In cases where the departure is quantified, the reporting entity would admit the amount after adjusting for the quantified departure from GAAP. An audit report that contains a qualified or adverse opinion for any other reason than for what is stated within paragraph 21 would result in the nonadmissibility of the investment within that subsidiary. There is no need to quantify the impact of a departure from GAAP in either the auditor’s report or the footnotes to the financial statements if a qualified audit opinion is issued due to a departure from GAAP and the departure is related to the valuation of an U.S. insurance entity on the basis of U.S. statutory accounting principles. In such cases, the investment shall be admitted without quantifying the departure.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in Description of Issue) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:
Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as detailed below, to expand the parameters for nonadmittance of entities with going concern.

Proposed Revisions:
SSAP No. 97:

Paragraph 8

c. The following provides guidance regarding the audits for entities covered under paragraph 8.b.:

i. The investment in the SCA shall be nonadmitted if the audited financial statements include substantial doubt about the entity’s ability to continue as a going concern. Additionally, the investment shall be nonadmitted on the basis/contents of the audit opinion as detailed in paragraph 21.

Paragraph 21

e. The investment shall be nonadmitted if the audit opinion report or accompanying financial statements / notes contains explanatory language indicating that there is an unalleviated substantial doubt about the investee’s ability to continue as a going concern.

5. Q - Does the audit opinion provided on the subsidiaries financial statements have to be clean or unqualified in order for the SCA investment to be admitted?

5.1 A – Paragraph 21 addresses various opinions that can be issued in which an entity can record certain investments under the GAAP Equity method of accounting. In certain cases, such as when the audit opinion is a disclaimer of opinion or there is indication that there is substantial doubt about the entity’s ability to continue as a going concern, the guidance states the investment shall be nonadmitted. In instances where there is a substantial doubt about the entity’s ability to continue as a going concern listed in any part of the audit report or accompanying financial statements / notes, the investment shall be nonadmitted. In addition, if there is a qualified opinion due to a departure from GAAP (or an adverse opinion) or due to a scope limitation, the investment shall be nonadmitted unless the impact of the departure is quantified within the audit opinion (see quantification exception related to the valuation of a U.S. insurance entity on the basis of U.S. statutory accounting principles discussed below). In cases where the departure is quantified, the reporting entity would admit the amount after adjusting for the quantified departure from GAAP. An audit report that contains a qualified or adverse opinion for any other reason than for what is stated within paragraph 21 would result in the nonadmissibility of the investment within that subsidiary. There is no need to quantify the impact of a departure from GAAP in either the auditor's report or the footnotes to the financial statements if a qualified audit opinion is issued due to a departure from GAAP and the departure is related to the valuation of an U.S. insurance entity on the basis of U.S. statutory accounting principles. In such cases, the investment shall be admitted without quantifying the departure.

Staff Review Completed by:
Fatima Sediqzad - NAIC Staff
July 2019

Status:
On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as illustrated above, to clarify that if an unalleviated going concern is noted in audited financial statements or audit opinion, the SCA shall be nonadmitted.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as final, to clarify that if an unalleviated going concern is noted in the audited financial statements or audit opinion, the SCA shall be nonadmitted.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Appendix A-785 Revisions from U.S./EU and U.S./UK Covered Agreements

Check (applicable entity):

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Description of Issue:
On June 25, 2019, NAIC Executive Committee and Plenary adopted revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) to incorporate relevant provisions from the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” and the “Bilateral Agreement Between the United States of America and the United Kingdom Regarding Insurance and Reinsurance” (collectively referred to as the Covered Agreement). The purpose of this agenda item is to incorporate those revisions into Appendix A-785, Credit for Reinsurance.

Existing Authoritative Literature:
The Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786), as they are adopted by the states are the primary legal guidance for credit for reinsurance, and relevant excerpts from Model #785 and Model #786 are included in Appendix A-785.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in Description of Issue) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:
NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to Appendix A-785 to incorporate the updates from the adopted Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) that incorporate the relevant provisions from the Covered Agreement. The proposed revisions to the full Appendix A-785 are included in the subsequent pages. With this exposure, NAIC staff request input from regulators and interested parties on how best to establish effective dates for these revisions in Appendix A-785.

Staff Review Completed by:
Jake Stultz—July 2019

Status:
On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix A-785, Credit for Reinsurance, as illustrated below, related to the “Bilateral Agreement Between the United States of America and the European
Union on Prudential Measures Regarding Insurance And Reinsurance” (Covered Agreement) adopted to the 
Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786).

On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions, 
with a paragraph reference change in paragraph 13.b. from 12.g. to be 13.g., to Appendix A-785, Credit for 
Reinsurance, as final, to incorporate the updates from the adopted Credit for Reinsurance Model Law (#785) and 
the Credit for Reinsurance Model Regulation (#786) that incorporate the relevant provisions from the Covered 
Agreement.
Appendix A-785

Credit For Reinsurance

Relevant SSAPs:
SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance
SSAP No. 62R—Property and Casualty Reinsurance
SSAP No. 66—Retrospectively Rated Contracts

Definitions

Note: There are references to where the changes came from in the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) in the paragraphs below. These are only to assist in reviewing and will be removed from the final version of Appendix A-785 when it is adopted.

1. “Commissioner” refers to the commissioner of insurance in the state where credit or a reduction from liability is taken.

2. “Jurisdiction” refers to any state, district or territory of the United States and also to territories, provinces or jurisdictions other than the United States.

3. “Liabilities” shall mean the assuming insurer’s gross liabilities attributable to reinsurance ceded by U. S. domiciled insurers that are not otherwise secured by acceptable means.

4. “Beneficiary” means the entity for whose sole benefit the trust has been established and any successor of the beneficiary by operation of law. If a court of law appoints a successor in interest to the named beneficiary, then the named beneficiary includes and is limited to the court appointed domiciliary receiver (including conservator, rehabilitator or liquidator).

5. “Grantor” means the entity that has established a trust for the sole benefit of the beneficiary. When established in conjunction with a reinsurance agreement, the grantor is the unlicensed, unaccredited assuming insurer.

6. “Obligations,” as used in paragraph 3029 of this appendix means:
   a. Reinsured losses and allocated loss expenses paid by the ceding company, but not recovered from the assuming insurer;
   b. Reserves for reinsured losses reported and outstanding;
   c. Reserves for reinsured losses incurred but not reported; and
   d. Reserves for allocated reinsured loss expenses and unearned premiums.

Credit Allowed a Domestic Ceding Insurer

7. Credit for reinsurance shall be allowed a domestic ceding insurer as either an asset or a reduction from liability on account of reinsurance ceded only when the reinsurer meets the requirements of paragraphs 8, 9, 10, 11, 12, or 13 or 14 of this appendix. Credit shall be allowed under paragraphs 8, 9, or 10 of this appendix only as respects cessions of those kinds or classes of business which the assuming insurer is licensed or otherwise allowed to write or assume in its state of domicile or, in the case of a U.S. branch of an alien assuming insurer, in the state...
through which it is entered and licensed to transact insurance or reinsurance. Credit shall be allowed under paragraphs 10 or 11 of this appendix only if the applicable requirements of paragraph 1544 have been satisfied.

8. Credit shall be allowed when the reinsurance is ceded to an assuming insurer that is licensed to transact insurance or reinsurance in the domiciliary state of the ceding insurer.

9. Credit shall be allowed when the reinsurance is ceded to an assuming insurer that is accredited as a reinsurer by the domiciliary state of the ceding insurer. In order to be eligible for accreditation, a reinsurer must:
   a. File with the commissioner evidence of its submission to the domiciliary state’s jurisdiction;
   b. Submit to the domiciliary state’s authority to examine its books and records;
   c. Be licensed to transact insurance or reinsurance in at least one state, or in the case of a U.S. branch of an alien assuming insurer, is entered through and licensed to transact insurance or reinsurance in at least one state;
   d. File annually with the commissioner a copy of its annual statement filed with the insurance department of its state of domicile and a copy of its most recent audited financial statement; and
   e. Demonstrate to the satisfaction of the commissioner that it has adequate financial capacity to meet its reinsurance obligations and is otherwise qualified to assume reinsurance from domestic insurers. An assuming insurer is deemed to meet this requirement as of the time of its application if it maintains a surplus as regards policyholders in an amount not less than $20,000,000 and its accreditation has not been denied by the commissioner within ninety (90) days after submission of its application.

10. a. Credit shall be allowed when the reinsurance is ceded to an assuming insurer that is domiciled in, or in the case of a U.S. branch of an alien assuming insurer is entered through, a state that employs standards regarding credit for reinsurance substantially similar to those of the domiciliary state of the ceding insurer and the assuming insurer or U.S. branch of an alien assuming insurer:
   i. Maintains a surplus as regards policyholders in an amount not less than $20,000,000; and
   ii. Submits to the authority of the domiciliary state to examine its books and records.
   b. The requirement of paragraph 10.a.i. does not apply to reinsurance ceded and assumed pursuant to pooling arrangements among insurers in the same holding company system.

11. a. Credit shall be allowed when the reinsurance is ceded to an assuming insurer that maintains a trust fund in a qualified U.S. financial institution, as defined in paragraph 5453, for the payment of the valid claims of its U.S. ceding insurers, their assigns and successors in interest. The assuming insurer shall report annually information substantially the same as that required to be reported on the NAIC Annual Statement form by licensed insurers. The assuming insurer shall submit to examination of its books and records by the commissioner and bear the expense of examination.
   b. i. Credit for reinsurance shall not be granted under this paragraph 11 unless the form of the trust and any amendments to the trust have been approved by:
      (a) The commissioner of the state where the trust is domiciled; or
      (b) The commissioner of another state who, pursuant to the terms of the trust instrument, has accepted principal regulatory oversight of the trust.
   ii. The trust instrument shall provide that:
(a) Contested claims shall be valid and enforceable out of funds in trust to the extent remaining unsatisfied thirty (30) days after entry of the final order of any court of competent jurisdiction in the United States;

(b) Legal title to the assets of the trust shall be vested in the trustee for the benefit of the grantor’s U.S. ceding insurers, their assigns and successors in interest;

(c) The trust shall be subject to examination as determined by the commissioner;

(d) The trust shall remain in effect for as long as the assuming insurer, or any member or former member of a group of insurers, shall have outstanding obligations under reinsurance agreements subject to the trust; and

(e) No later than February 28 of each year the trustee of the trust shall report to the commissioner in writing setting forth the balance in the trust and listing the trust’s investments at the preceding year-end, and shall certify the date of termination of the trust, if so planned, or certify that the trust shall not expire prior to the following December 31.

c. The following requirements apply to the following categories of assuming insurer:

i. The trust fund for a single assuming insurer shall consist of funds in trust in an amount not less than the assuming insurer’s liabilities attributable to reinsurance ceded by U.S. ceding insurers, and, in addition, the assuming insurer shall maintain a trusteed surplus of not less than $20,000,000, except as provided in paragraph 11.c.ii. of this appendix.

ii. At any time after the assuming insurer has permanently discontinued underwriting new business secured by the trust for at least three full years, the commissioner with principal regulatory oversight of the trust may authorize a reduction in the required trusteed surplus, but only after a finding, based on an assessment of the risk, that the new required surplus level is adequate for the protection of U.S. ceding insurers, policyholders and claimants in light of reasonably foreseeable adverse loss development. The risk assessment may involve an actuarial review, including an independent analysis of reserves and cash flows, and shall consider all material risk factors, including when applicable the lines of business involved, the stability of the incurred loss estimates and the effect of the surplus requirements on the assuming insurer’s liquidity or solvency. The minimum required trusteed surplus may not be reduced to an amount less than thirty percent (30%) of the assuming insurer’s liabilities attributable to reinsurance ceded by U.S. ceding insurers covered by the trust.

iii. (a) In the case of a group including incorporated and individual unincorporated underwriters:

(1) For reinsurance ceded under reinsurance agreements with an inception, amendment or renewal date on or after January 1, 1993, the trust shall consist of a trusteed account in an amount not less than the respective underwriters’ several liabilities attributable to business ceded by U.S. domiciled ceding insurers to any underwriter of the group;

(2) For reinsurance ceded under reinsurance agreements with an inception date on or before December 31, 1992, and not amended or renewed after
that date, notwithstanding the other provisions contained herein, the trust shall consist of a trustee account in an amount not less than the respective underwriters’ several insurance and reinsurance liabilities attributable to business written in the United States; and

(3) In addition to these trusts, the group shall maintain in trust a trustee account of which $100,000,000 shall be held jointly for the benefit of the U.S. domiciled ceding insurers of any member of the group for all years of account; and

(b) The incorporated members of the group shall not be engaged in any business other than underwriting as a member of the group and shall be subject to the same level of regulation and solvency control by the group’s domiciliary regulator as are the unincorporated members.

(c) Within ninety (90) days after its financial statements are due to be filed with the group’s domiciliary regulator, the group shall provide to the commissioner an annual certification by the group’s domiciliary regulator of the solvency of each underwriter member; or if a certification is unavailable, financial statements, prepared by independent public accountants, of each underwriter member of the group.

iv. In the case of a group of incorporated underwriters under common administration, the group shall:

(a) Have continuously transacted an insurance business outside the United States for at least three (3) years immediately prior to making application for accreditation;

(b) Maintain aggregate policyholders’ surplus of at least $10,000,000,000;

(c) Maintain a trust fund in an amount not less than the group’s several liabilities attributable to business ceded by U.S. domiciled ceding insurers to any member of the group pursuant to reinsurance contracts issued in the name of the group;

(d) In addition, maintain a joint trustee account of which $100,000,000 shall be held jointly for the benefit of U.S. domiciled ceding insurers of any member of the group as additional security for these liabilities; and

(e) Within ninety (90) days after its financial statements are due to be filed with the group’s domiciliary regulator, make available to the commissioner an annual certification of each underwriter member’s solvency by the member’s domiciliary regulator and financial statements of each underwriter member of the group prepared by its independent public accountant.

d. For the purposes of this paragraph 11., the term “liabilities” shall mean the assuming insurer’s gross liabilities attributable to reinsurance ceded by U.S. domiciled insurers excluding liabilities that are otherwise secured by acceptable means, and shall include:

i. For business ceded by domestic insurers authorized to write accident and health, and property and casualty insurance:
(a) Losses and allocated loss expenses paid by the ceding insurer, recoverable from the assuming insurer;

(b) Reserves for losses reported and outstanding;

(c) Reserves for losses incurred but not reported;

(d) Reserves for allocated loss expenses; and

(e) Unearned premiums.

ii. For business ceded by domestic insurers authorized to write life, health and annuity insurance:

(a) Aggregate reserves for life policies and contracts net of policy loans and net due and deferred premiums;

(b) Aggregate reserves for accident and health policies;

(c) Deposit funds and other liabilities without life or disability contingencies; and

(d) Liabilities for policy and contract claims.

12. Credit shall be allowed when the reinsurance is ceded to an assuming insurer that has been certified as a reinsurer in the domestic state of the ceding insurer and secures its obligations in accordance with the requirements of this paragraph 12.

a. In order to be eligible for certification, the assuming insurer shall meet the following requirements:

i. The assuming insurer must be domiciled and licensed to transact insurance or reinsurance in a qualified jurisdiction, as determined by the domestic state of the ceding insurer pursuant to paragraphs 12.c. and 12.k. of this subsection;

ii. The assuming insurer must maintain minimum capital and surplus, or its equivalent, in an amount as provided in paragraph 12.i.iii.(b) of this appendix;

iii. The assuming insurer must maintain financial strength ratings from two or more rating agencies deemed acceptable by the domestic state of the ceding insurer, as provided in paragraph 12.i.iii.(c) of this appendix;

iv. The assuming insurer must agree to submit to the jurisdiction of the domestic state of the ceding insurer, appoint the commissioner of the domestic state of the ceding insurer as its agent for service of process in that state, and agree to provide security for 100 percent of the assuming insurer’s liabilities attributable to reinsurance ceded by U.S. ceding insurers if it resists enforcement of a final U.S. judgment;

v. The assuming insurer must agree to meet applicable information filing requirements as determined by the domestic state of the ceding insurer, both with respect to an initial application for certification and on an ongoing basis; and
vi. The assuming insurer must satisfy any other requirements for certification deemed relevant by the domestic state of the ceding insurer.

b. An association including incorporated and individual unincorporated underwriters may be a certified reinsurer. In order to be eligible for certification, in addition to satisfying requirements of paragraph 12.a. of this appendix:

i. The association shall satisfy its minimum capital and surplus requirements through the capital and surplus equivalents (net of liabilities) of the association and its members, which shall include a joint central fund that may be applied to any unsatisfied obligation of the association or any of its members, in an amount determined by the domestic state of the ceding insurer to provide adequate protection;

ii. The incorporated members of the association shall not be engaged in any business other than underwriting as a member of the association and shall be subject to the same level of regulation and solvency control by the association’s domiciliary regulator as are the unincorporated members; and

iii. Within ninety (90) days after its financial statements are due to be filed with the association’s domiciliary regulator, the association shall provide to the domestic state of the ceding insurer an annual certification by the association’s domiciliary regulator of the solvency of each underwriter member; or if a certification is unavailable, financial statements, prepared by independent public accountants, of each underwriter member of the association.

c. The domestic state of the ceding insurer shall create and publish a list of qualified jurisdictions, under which an assuming insurer licensed and domiciled in such jurisdiction is eligible to be considered for certification by the domestic state of the ceding insurer as a certified reinsurer.

i. In order to determine whether the domiciliary jurisdiction of a non-U.S. assuming insurer is eligible to be recognized as a qualified jurisdiction, the domestic state of the ceding insurer shall evaluate the appropriateness and effectiveness of the reinsurance supervisory system of the jurisdiction, both initially and on an ongoing basis, and consider the rights, benefits and the extent of reciprocal recognition afforded by the non-U.S. jurisdiction to reinsurers licensed and domiciled in the U.S. A qualified jurisdiction must agree to share information and cooperate with the domestic state of the ceding insurer with respect to all certified reinsurers domiciled within that jurisdiction. A jurisdiction may not be recognized as a qualified jurisdiction if the domestic state of the ceding insurer has determined that the jurisdiction does not adequately and promptly enforce final U.S. judgments and arbitration awards. Additional factors may be considered in the discretion of the domestic state of the ceding insurer.

ii. A list of qualified jurisdictions shall be published through the NAIC Committee Process. The domestic state of the ceding insurer shall consider this list in determining qualified jurisdictions. If the domestic state of the ceding insurer approves a jurisdiction as qualified that does not appear on the list of qualified jurisdictions, the state shall provide thoroughly documented justification in accordance with criteria to be developed under regulations.
iii. U.S. jurisdictions that meet the requirement for accreditation under the NAIC financial standards and accreditation program shall be recognized as qualified jurisdictions.

iv. If a certified reinsurer’s domiciliary jurisdiction ceases to be a qualified jurisdiction, the domestic state of the ceding insurer has the discretion to suspend the reinsurer’s certification indefinitely, in lieu of revocation.

d. The domestic state of the ceding insurer shall assign a rating to each certified reinsurer, giving due consideration to the financial strength ratings that have been assigned by rating agencies deemed acceptable to the commissioner pursuant to regulation. The domestic state of the ceding insurer shall publish a list of all certified reinsurers and their ratings.

e. A certified reinsurer shall secure obligations assumed from U.S. ceding insurers under this subsection at a level consistent with its rating, as specified in paragraph 12.h.i. of this appendix.

i. In order for a domestic ceding insurer to qualify for full financial statement credit for reinsurance ceded to a certified reinsurer, the certified reinsurer shall maintain security in a form acceptable to the domestic state of the ceding insurer and consistent with the provisions of paragraph 1918 of this appendix, or in a multibeneficiary trust in accordance with paragraph 11 of this appendix, except as otherwise provided in paragraph 12.e.ii. through 12.e.v. of this appendix.

ii. If a certified reinsurer maintains a trust to fully secure its obligations subject to paragraph 11 of this appendix, and chooses to secure its obligations incurred as a certified reinsurer in the form of a multibeneficiary trust, the certified reinsurer shall maintain separate trust accounts for its obligations incurred under reinsurance agreements issued or renewed as a certified reinsurer with reduced security as permitted by paragraph 12, or comparable laws of other U.S. jurisdictions, and for its obligations subject to paragraph 11 of this appendix. It shall be a condition to the grant of certification under paragraph 12 of this appendix that the certified reinsurer shall have bound itself, by the language of the trust and agreement with the commissioner with principal regulatory oversight of each such trust account, to fund, upon termination of any such trust account, out of the remaining surplus of such trust any deficiency of any other such trust account.

iii. The minimum trusteed surplus requirements provided in paragraph 11 of this appendix are not applicable with respect to a multibeneficiary trust maintained by a certified reinsurer for the purpose of securing obligations incurred under this subsection, except that such trust shall maintain a minimum trusteed surplus of $10,000,000.

iv. With respect to obligations incurred by a certified reinsurer under paragraph 12 of this appendix, if the security is insufficient, the allowable reinsurance credit shall be reduced by an amount proportionate to the deficiency, and the domestic state of the ceding insurer has the discretion to impose further reductions in allowable credit upon finding that there is a material risk that the certified reinsurer’s obligations will not be paid in full when due.

v. For purposes of paragraph 12, a certified reinsurer whose certification has been terminated for any reason shall be treated as a certified reinsurer required to secure 100 percent of its obligations.
As used in paragraph 12.c.v., the term “terminated” refers to revocation, suspension, voluntary surrender and inactive status.

If the domestic state of the ceding insurer continues to assign a higher rating as permitted by other provisions of paragraph 12, this requirement does not apply to a certified reinsurer in inactive status or to a reinsurer whose certification has been suspended.

If an applicant for certification has been certified as a reinsurer in an NAIC accredited jurisdiction, the domestic state of the ceding insurer has the discretion to defer to that jurisdiction’s certification, and has the discretion to defer to the rating assigned by that jurisdiction, and such assuming insurer shall be considered to be a certified reinsurer in the domestic state of the ceding insurer.

A certified reinsurer that ceases to assume new business in this state may request to maintain its certification in inactive status in order to continue to qualify for a reduction in security for its in-force business. An inactive certified reinsurer shall continue to comply with all applicable requirements of paragraph 12, and the domestic state of the ceding insurer shall assign a rating that takes into account, if relevant, the reasons why the reinsurer is not assuming new business.

The credit allowed under paragraph 12 shall be based upon the security held by or on behalf of the ceding insurer in accordance with a rating assigned to the certified reinsurer by the commissioner. The security shall be in a form consistent with the provisions of paragraph 12 and paragraph 1948 of this appendix, and paragraphs 20-5149-50 of this appendix, as applicable. The amount of security required in order for full credit to be allowed shall correspond with the following requirements:

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<td>Vulnerable – 6</td>
<td>100%</td>
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</table>

Affiliated reinsurance transactions shall receive the same opportunity for reduced security requirements as all other reinsurance transactions.

The commissioner shall require the certified reinsurer to post one hundred percent (100%), for the benefit of the ceding insurer or its estate, security upon the entry of an order of rehabilitation, liquidation or conservation against the ceding insurer.

In order to facilitate the prompt payment of claims, a certified reinsurer shall not be required to post security for catastrophe recoverables for a period of one year from the date of the first instance of a liability reserve entry by the ceding company as a result of a loss from a catastrophic occurrence as recognized by the commissioner. The one year deferral period is contingent upon the certified reinsurer continuing to pay claims in a timely manner. Reinsurance recoverables for only the following lines of business as
reported on the NAIC annual financial statement related specifically to the catastrophic occurrence will be included in the deferral:

(a) Line 1: Fire
(b) Line 2: Allied Lines
(c) Line 3: Farmowners multiple peril
(d) Line 4: Homeowners multiple peril
(e) Line 5: Commercial multiple peril
(f) Line 9: Inland Marine
(g) Line 12: Earthquake
(h) Line 21: Auto physical damage

v. Credit for reinsurance under paragraph 12 of this appendix shall apply only to reinsurance contracts entered into or renewed on or after the effective date of the certification of the assuming insurer. Any reinsurance contract entered into prior to the effective date of the certification of the assuming insurer that is subsequently amended after the effective date of the certification of the assuming insurer, or a new reinsurance contract, covering any risk for which collateral was provided previously, shall only be subject to this section with respect to losses incurred and reserves reported from and after the effective date of the amendment or new contract.

vi. Nothing in paragraph 12 of this appendix shall prohibit the parties to a reinsurance agreement from agreeing to provisions establishing security requirements that exceed the minimum security requirements established for certified reinsurers under this section.

i. Certification Procedure

i. The commissioner of the domestic state of the ceding insurer shall post notice on the insurance department’s website promptly upon receipt of any application for certification, including instructions on how members of the public may respond to the application. The commissioner may not take final action on the application until at least thirty (30) days after posting the notice required by this paragraph.

ii. The commissioner of the domestic state of the ceding insurer shall issue written notice to an assuming insurer that has made application and been approved as a certified reinsurer. Included in such notice shall be the rating assigned the certified reinsurer in accordance with paragraph 12.h. of this appendix. The commissioner shall publish a list of all certified reinsurers and their ratings.

iii. In order to be eligible for certification, the assuming insurer shall meet the following requirements:
(a) The assuming insurer must be domiciled and licensed to transact insurance or reinsurance in a Qualified Jurisdiction, as determined by the commissioner pursuant to paragraph 12.c. and 12.k. of this appendix.

(b) The assuming insurer must maintain capital and surplus, or its equivalent, of no less than $250,000,000 calculated in accordance with paragraph 12.i.iv.(h) of this appendix. This requirement may also be satisfied by an association including incorporated and individual unincorporated underwriters having minimum capital and surplus equivalents (net of liabilities) of at least $250,000,000 and a central fund containing a balance of at least $250,000,000.

(c) The assuming insurer must maintain financial strength ratings from two or more rating agencies deemed acceptable by the commissioner. These ratings shall be based on interactive communication between the rating agency and the assuming insurer and shall not be based solely on publicly available information. These financial strength ratings will be one factor used by the commissioner in determining the rating that is assigned to the assuming insurer. Acceptable rating agencies include the following:

1. Standard & Poor’s;
2. Moody’s Investors Service;
3. Fitch Ratings;
4. A.M. Best Company; or
5. Any other Nationally Recognized Statistical Rating Organization.

(d) The certified reinsurer must comply with any other requirements reasonably imposed by the commissioner of the domestic state of the ceding insurer.

iv. Each certified reinsurer shall be rated on a legal entity basis, with due consideration being given to the group rating where appropriate, except that an association including incorporated and individual unincorporated underwriters that has been approved to do business as a single certified reinsurer may be evaluated on the basis of its group rating. Factors that may be considered as part of the evaluation process include, but are not limited to, the following:

(a) The certified reinsurer’s financial strength rating from an acceptable rating agency. The maximum rating that a certified reinsurer may be assigned will correspond to its financial strength rating as outlined in the table below. The commissioner shall use the lowest financial strength rating received from an approved rating agency in establishing the maximum rating of a certified reinsurer. A failure to obtain or maintain at least two financial strength ratings from acceptable rating agencies will result in loss of eligibility for certification:
<table>
<thead>
<tr>
<th>Ratings</th>
<th>Best</th>
<th>S&amp;P</th>
<th>Moody’s</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secure – 1</td>
<td>A++</td>
<td>AAA</td>
<td>Aaa</td>
<td>AAA</td>
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<tr>
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<td>AA+, AA, AA-</td>
<td>Aa1, Aa2, Aa3</td>
<td>AA+, AA, AA-</td>
</tr>
<tr>
<td>Secure – 3</td>
<td>A</td>
<td>A+, A</td>
<td>A1, A2</td>
<td>A+, A</td>
</tr>
<tr>
<td>Secure – 4</td>
<td>A-</td>
<td>A-</td>
<td>A3</td>
<td>A-</td>
</tr>
<tr>
<td>Secure – 5</td>
<td>B++, B+</td>
<td>BBB+, BBB, BBB-</td>
<td>Baa1, Baa2, Baa3</td>
<td>BBB+, BBB, BBB-</td>
</tr>
</tbody>
</table>

(b) The business practices of the certified reinsurer in dealing with its ceding insurers, including its record of compliance with reinsurance contractual terms and obligations;

c) For certified reinsurers domiciled in the U.S., a review of the most recent applicable NAIC Annual Statement Blank, either Schedule F (for property/casualty reinsurers) or Schedule S (for life and health reinsurers);

d) For certified reinsurers not domiciled in the U.S., a review annually of Form CR-F (for property/casualty reinsurers) or Form CR-S (for life and health reinsurers);

e) The reputation of the certified reinsurer for prompt payment of claims under reinsurance agreements, based on an analysis of ceding insurers’ Schedule F reporting of overdue reinsurance recoverables, including the proportion of obligations that are more than ninety (90) days past due or are in dispute, with specific attention given to obligations payable to companies that are in administrative supervision or receivership;

(f) Regulatory actions against the certified reinsurer;

g) The report of the independent auditor on the financial statements of the insurance enterprise, on the basis described in paragraph (h) below;

(h) For certified reinsurers not domiciled in the U.S., audited financial statements (audited U.S. GAAP basis if available, audited IFRS basis statements are allowed but must include an audited footnote reconciling equity and net income to a U.S.
GAAP basis, or, with the permission of the state insurance commissioner, audited IFRS statements with reconciliation to U.S. GAAP certified by an officer of the company), regulatory filings, and actuarial opinion (as filed with the non-U.S. jurisdiction supervisor, with a translation into English). Upon the initial application for certification, the commissioner will consider audited financial statements for the last two-three (23) years filed with its non-U.S. jurisdiction supervisor; (Model #786, Section 8B(4)(h))

(i) The liquidation priority of obligations to a ceding insurer in the certified reinsurer’s domiciliary jurisdiction in the context of an insolvency proceeding;

(j) A certified reinsurer’s participation in any solvent scheme of arrangement, or similar procedure, which involves U.S. ceding insurers. The commissioner shall receive prior notice from a certified reinsurer that proposes participation by the certified reinsurer in a solvent scheme of arrangement; and

(k) Any other information deemed relevant by the commissioner.

v. Based on the analysis conducted under paragraph 12.i.iv.(e) of a certified reinsurer’s reputation for prompt payment of claims, the commissioner may make appropriate adjustments in the security the certified reinsurer is required to post to protect its liabilities to U.S. ceding insurers, provided that the commissioner shall, at a minimum, increase the security the certified reinsurer is required to post by one rating level under paragraph 12.h. if the commissioner finds that:

(a) more than fifteen percent (15%) of the certified reinsurer’s ceding insurance clients have overdue reinsurance recoverables on paid losses of ninety (90) days or more which are not in dispute and which exceed $100,000 for each cedent; or

(b) the aggregate amount of reinsurance recoverables on paid losses which are not in dispute that are overdue by ninety (90) days or more exceeds $50,000,000.

vi. The assuming insurer must submit a properly executed Form CR-1 as evidence of its submission to the jurisdiction of this state, appointment of the commissioner as an agent for service of process in this state, and agreement to provide security for one hundred percent (100%) of the assuming insurer’s liabilities attributable to reinsurance ceded by U.S. ceding insurers if it resists enforcement of a final U.S. judgment. The commissioner shall not certify any assuming insurer that is domiciled in a jurisdiction that the commissioner has determined does not adequately and promptly enforce final U.S. judgments or arbitration awards.

vii. The certified reinsurer must agree to meet applicable information filing requirements as determined by the commissioner, both with respect to an initial application for certification and on an ongoing basis. All information submitted by certified reinsurers which are not otherwise public information subject to disclosure shall be exempted from disclosure under [cite state law equivalent of Freedom of Information Act] and shall be withheld from public disclosure. The applicable information filing requirements are, as follows:
(a) Notification within ten (10) days of any regulatory actions taken against the certified reinsurer, any change in the provisions of its domiciliary license or any change in rating by an approved rating agency, including a statement describing such changes and the reasons therefore;

(b) Annually, Form CR-F or CR-S, as applicable;

(c) Annually, the report of the independent auditor on the financial statements of the insurance enterprise, on the basis described in paragraph 12.i.vii.(d) below;

(d) Annually, the most recent audited financial statements (audited U.S. GAAP basis if available, audited IFRS basis statements are allowed but must include an audited footnote reconciling equity and net income to a U.S. GAAP basis, or, with the permission of the state insurance commissioner, audited IFRS statements with reconciliation to U.S. GAAP certified by an officer of the company), regulatory filings, and actuarial opinion (as filed with the certified reinsurer’s supervisor, with a translation into English). Upon the initial certification, audited financial statements for the last two to three (23) years filed with the certified reinsurer’s supervisor; *(Model #786, Section 8B(7)(d))*

(e) At least annually, an updated list of all disputed and overdue reinsurance claims regarding reinsurance assumed from U.S. domestic ceding insurers;

(f) A certification from the certified reinsurer’s domestic regulator that the certified reinsurer is in good standing and maintains capital in excess of the jurisdiction’s highest regulatory action level; and

(g) Any other information that the commissioner may reasonably require.

j. Change in Rating or Revocation of Certification

i. In the case of a downgrade by a rating agency or other disqualifying circumstance, the commissioner shall upon written notice assign a new rating to the certified reinsurer in accordance with the requirements of paragraph 12.i.

ii. The commissioner shall have the authority to suspend, revoke, or otherwise modify a certified reinsurer’s certification at any time if the certified reinsurer fails to meet its obligations or security requirements under this section, or if other financial or operating results of the certified reinsurer, or documented significant delays in payment by the certified reinsurer, lead the commissioner to reconsider the certified reinsurer’s ability or willingness to meet its contractual obligations.

iii. If the rating of a certified reinsurer is upgraded by the commissioner, the certified reinsurer may meet the security requirements applicable to its new rating on a prospective basis, but the commissioner shall require the certified reinsurer to post security under the previously applicable security requirements as to all contracts in force on or before the effective date of the upgraded rating. If the rating of a certified reinsurer is downgraded by the commissioner, the commissioner shall require the certified reinsurer to meet the security requirements applicable to its new rating for all business it has assumed as a certified reinsurer.
iv. Upon revocation of the certification of a certified reinsurer by the commissioner, the
assuming insurer shall be required to post security in accordance with paragraph 1918 in
order for the ceding insurer to continue to take credit for reinsurance ceded to the
assuming insurer. If funds continue to be held in trust in accordance with paragraph 11,
the commissioner may allow additional credit equal to the ceding insurer’s pro rata share
of such funds, discounted to reflect the risk of uncollectibility and anticipated expenses of
trust administration. Notwithstanding the change of a certified reinsurer’s rating or
revocation of its certification, a domestic insurer that has ceded reinsurance to that
certified reinsurer may not be denied credit for reinsurance for a period of three (3)
months for all reinsurance ceded to that certified reinsurer, unless the reinsurance is
found by the commissioner to be at high risk of uncollectibility.

k. Qualified Jurisdictions

i. If, upon conducting an evaluation with respect to the reinsurance supervisory system of
any non-U.S. assuming insurer, the commissioner of the domestic state of the ceding
insurer determines that the jurisdiction qualifies to be recognized as a qualified
jurisdiction, the commissioner shall publish notice and evidence of such recognition in an
appropriate manner. The commissioner may establish a procedure to withdraw
recognition of those jurisdictions that are no longer qualified.

ii. In order to determine whether the domiciliary jurisdiction of a non-U.S. assuming insurer
is eligible to be recognized as a qualified jurisdiction, the commissioner shall evaluate the
reinsurance supervisory system of the non-U.S. jurisdiction, both initially and on an
ongoing basis, and consider the rights, benefits and the extent of reciprocal recognition
afforded by the non-U.S. jurisdiction to reinsurers licensed and domiciled in the U.S. The
commissioner shall determine the appropriate approach for evaluating the qualifications
of such jurisdictions, and create and publish a list of jurisdictions whose reinsurers may
be approved by the commissioner as eligible for certification. A qualified jurisdiction
must agree to share information and cooperate with the commissioner with respect to all
certified reinsurers domiciled within that jurisdiction. Additional factors to be considered
in determining whether to recognize a qualified jurisdiction, in the discretion of the
commissioner, include but are not limited to the following:

(a) The framework under which the assuming insurer is regulated.

(b) The structure and authority of the domiciliary regulator with regard to solvency
regulation requirements and financial surveillance.

(c) The substance of financial and operating standards for assuming insurers in the
domiciliary jurisdiction.

(d) The form and substance of financial reports required to be filed or made publicly
available by reinsurers in the domiciliary jurisdiction and the accounting
principles used.

(e) The domiciliary regulator’s willingness to cooperate with U.S. regulators in
general and the commissioner in particular.

(f) The history of performance by assuming insurers in the domiciliary jurisdiction.
(g) Any documented evidence of substantial problems with the enforcement of final U.S. judgments in the domiciliary jurisdiction. A jurisdiction will not be considered to be a qualified jurisdiction if the commissioner has determined that it does not adequately and promptly enforce final U.S. judgments or arbitration awards.

(h) Any relevant international standards or guidance with respect to mutual recognition of reinsurance supervision adopted by the International Association of Insurance Supervisors or successor organization.

(i) Any other matters deemed relevant by the commissioner.

iii. A list of qualified jurisdictions shall be published through the NAIC Committee Process. The commissioner shall consider this list in determining qualified jurisdictions. If the commissioner approves a jurisdiction as qualified that does not appear on the list of qualified jurisdictions, the commissioner shall provide thoroughly documented justification with respect to the criteria provided under paragraphs 12.k.ii.(a) to (i).

iv. U.S. jurisdictions that meet the requirements for accreditation under the NAIC financial standards and accreditation program shall be recognized as qualified jurisdictions.

l. Recognition of Certification Issued by an NAIC Accredited Jurisdiction

i. If an applicant for certification has been certified as a reinsurer in an NAIC accredited jurisdiction, the commissioner has the discretion to defer to that jurisdiction’s certification, and to defer to the rating assigned by that jurisdiction, if the assuming insurer submits a properly executed Form CR-1 and such additional information as the commissioner requires. The assuming insurer shall be considered to be a certified reinsurer in this State.

ii. Any change in the certified reinsurer’s status or rating in the other jurisdiction shall apply automatically in this State as of the date it takes effect in the other jurisdiction. The certified reinsurer shall notify the commissioner of any change in its status or rating within 10 days after receiving notice of the change.

iii. The commissioner may withdraw recognition of the other jurisdiction’s rating at any time and assign a new rating in accordance with paragraph 12.j. of this appendix.

iv. The commissioner may withdraw recognition of the other jurisdiction’s certification at any time, with written notice to the certified reinsurer. Unless the commissioner suspends or revokes the certified reinsurer’s certification in accordance with paragraph 12.j. of this appendix, the certified reinsurer’s certification shall remain in good standing in the domestic state of the ceding insurer for a period of three (3) months, which shall be extended if additional time is necessary to consider the assuming insurer’s application for certification in this State.

m. Mandatory Funding Clause. In addition to the clauses required under SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance and SSAP No. 62R—Property and Casualty Reinsurance, reinsurance contracts entered into or renewed under paragraph 12 of this appendix shall include a proper funding clause, which requires the certified reinsurer to provide and
maintain security in an amount sufficient to avoid the imposition of any financial statement penalty on the ceding insurer under this section for reinsurance ceded to the certified reinsurer.

n. The commissioner shall comply with all reporting and notification requirements that may be established by the NAIC with respect to certified reinsurers and qualified jurisdictions.

13. Credit shall be allowed when the reinsurance is ceded to an assuming insurer meeting each of the conditions set forth in paragraphs 13.a through 13.h. Credit shall be allowed for reinsurance ceded by a domestic insurer to an assuming insurer that is licensed to write reinsurance by, and has its head office or is domiciled in, a Reciprocal Jurisdiction, and which meets the other requirements of paragraph 13. (Model #786, Section 9A)

a. The assuming insurer must have its head office or be domiciled in, as applicable, and be licensed in a Reciprocal Jurisdiction. A “Reciprocal Jurisdiction” is a jurisdiction that meets one of the following: (Model #785, Section 2F(1)(a) Model #786, Section 9B)

i. A non-U.S. jurisdiction that is subject to an in-force covered agreement with the United States, each within its legal authority, or, in the case of a covered agreement between the United States and European Union, is a member state of the European Union. For purposes of this subsection, a “covered agreement” is an agreement entered into pursuant to Dodd-Frank Wall Street Reform and Consumer Protection Act, 31 U.S.C. §§ 313 and 314, that is currently in effect or in a period of provisional application and addresses the elimination, under specified conditions, of collateral requirements as a condition for entering into any reinsurance agreement with a ceding insurer domiciled in this state or for allowing the ceding insurer to recognize credit for reinsurance;

ii. A U.S. jurisdiction that meets the requirements for accreditation under the NAIC financial standards and accreditation program; or

iii. A qualified jurisdiction, as determined by the commissioner, which is not otherwise described in paragraphs 13.a.i or 13.a.ii. above and which the commissioner determines meets all of the following additional requirements:

(a) Provides that an insurer which has its head office or is domiciled in such qualified jurisdiction shall receive credit for reinsurance ceded to a U.S.-domiciled assuming insurer in the same manner as credit for reinsurance is received for reinsurance assumed by insurers domiciled in such qualified jurisdiction;

(b) Does not require a U.S.-domiciled assuming insurer to establish or maintain a local presence as a condition for entering into a reinsurance agreement with any ceding insurer subject to regulation by the non-U.S. jurisdiction or as a condition to allow the ceding insurer to recognize credit for such reinsurance;

(c) Recognizes the U.S. state regulatory approach to group supervision and group capital, by providing written confirmation by a competent regulatory authority, in such qualified jurisdiction, that insurers and insurance groups that are domiciled or maintain their headquarters in this state or another jurisdiction accredited by the NAIC shall be subject only to worldwide prudential insurance group...
supervision including worldwide group governance, solvency and capital, and reporting, as applicable, by the commissioner or the commissioner of the domiciliary state and will not be subject to group supervision at the level of the worldwide parent undertaking of the insurance or reinsurance group by the qualified jurisdiction; and

(d) Provides written confirmation by a competent regulatory authority in such qualified jurisdiction that information regarding insurers and their parent, subsidiary, or affiliated entities, if applicable, shall be provided to the commissioner in accordance with a memorandum of understanding or similar document between the commissioner and such qualified jurisdiction, including but not limited to the International Association of Insurance Supervisors Multilateral Memorandum of Understanding or other multilateral memoranda of understanding coordinated by the NAIC.

b. The assuming insurer must have and maintain on an ongoing basis minimum capital and surplus, or its equivalent, calculated on at least an annual basis as of the preceding December 31 or at the annual date otherwise statutorily reported to the Reciprocal Jurisdiction, and confirmed as set forth in paragraph 13.g, according to the methodology of its domiciliary jurisdiction, in the following amounts: (Model #786, Section 9C(2))

i. No less than $250,000,000; or

ii. If the assuming insurer is an association, including incorporated and individual unincorporated underwriters:

(a) Minimum capital and surplus equivalents (net of liabilities) or own funds of the equivalent of at least $250,000,000; and

(b) A central fund containing a balance of the equivalent of at least $250,000,000.

c. The assuming insurer must have and maintain on an ongoing basis a minimum solvency or capital ratio, as applicable, as follows: (Model #786, Section 9C(3))

i. If the assuming insurer has its head office or is domiciled in a Reciprocal Jurisdiction as defined in paragraph 13.a.i., the ratio specified in the applicable covered agreement;

ii. If the assuming insurer is domiciled in a Reciprocal Jurisdiction as defined in paragraph 13.a.ii, a risk-based capital (RBC) ratio of three hundred percent (300%) of the authorized control level, calculated in accordance with the formula developed by the NAIC; or

iii. If the assuming insurer is domiciled in a Reciprocal Jurisdiction as defined in paragraph 13.a.iii., after consultation with the Reciprocal Jurisdiction and considering any recommendations published through the NAIC Committee Process, such solvency or capital ratio as the commissioner determines to be an effective measure of solvency.

d. The assuming insurer must agree and provide adequate assurance to the commissioner, in a form of a properly executed Form RJ-1, as follows: (Model #786, Section 9C(4))
i. The assuming insurer must provide prompt written notice and explanation to the commissioner if it falls below the minimum requirements set forth in paragraphs 13.b. or 13.c., or if any regulatory action is taken against it for serious noncompliance with applicable law;

ii. The assuming insurer must consent in writing to the jurisdiction of the courts of this state and to the appointment of the commissioner as agent for service of process. The commissioner may require that consent for service of process be provided to the commissioner and included in each reinsurance agreement. Nothing in this provision shall limit, or in any way alter, the capacity of parties to a reinsurance agreement to agree to alternative dispute resolution mechanisms, except to the extent such agreements are unenforceable under applicable insolvency or delinquency laws;

iii. The assuming insurer must consent in writing to pay all final judgments, wherever enforcement is sought, obtained by a ceding insurer or its legal successor, that have been declared enforceable in the jurisdiction where the judgment was obtained;

iv. Each reinsurance agreement must include a provision requiring the assuming insurer to provide security in an amount equal to one hundred percent (100%) of the assuming insurer’s liabilities attributable to reinsurance ceded pursuant to that agreement if the assuming insurer resists enforcement of a final judgment that is enforceable under the law of the jurisdiction in which it was obtained or a properly enforceable arbitration award, whether obtained by the ceding insurer or by its legal successor on behalf of its resolution estate; and

v. The assuming insurer must confirm that it is not presently participating in any solvent scheme of arrangement which involves this state’s ceding insurers, and agree to notify the ceding insurer and the commissioner and to provide security in an amount equal to one hundred percent (100%) of the assuming insurer’s liabilities to the ceding insurer, should the assuming insurer enter into such a solvent scheme of arrangement. Such security shall be in a form consistent with the provisions of paragraph 12 and paragraph 19. The term “solvent scheme of arrangement” means a foreign or alien statutory or regulatory compromise procedure subject to requisite majority creditor approval and judicial sanction in the assuming insurer’s home jurisdiction either to finally commute liabilities of duly noticed classed members or creditors of a solvent debtor, or to reorganize or restructure the debts and obligations of a solvent debtor on a final basis, and which may be subject to judicial recognition and enforcement of the arrangement by a governing authority outside the ceding insurer’s home jurisdiction.

vi. The assuming insurer must agree in writing to meet the applicable information filing requirements as set forth in paragraph 13.e.

c. The assuming insurer or its legal successor must provide, if requested by the commissioner, on behalf of itself and any legal predecessors, the following documentation to the commissioner: (Model #786, Section 9C(5))

i. For the two years preceding entry into the reinsurance agreement and on an annual basis thereafter, the assuming insurer’s annual audited financial statements, in accordance with
the applicable law of the jurisdiction of its head office or domiciliary jurisdiction, as applicable, including the external audit report;

ii. For the two years preceding entry into the reinsurance agreement, the solvency and financial condition report or actuarial opinion, if filed with the assuming insurer’s supervisor;

iii. Prior to entry into the reinsurance agreement and not more than semi-annually thereafter, an updated list of all disputed and overdue reinsurance claims outstanding for 90 days or more, regarding reinsurance assumed from ceding insurers domiciled in the United States; and

iv. Prior to entry into the reinsurance agreement and not more than semi-annually thereafter, information regarding the assuming insurer’s assumed reinsurance by ceding insurer, ceded reinsurance by the assuming insurer, and reinsurance recoverable on paid and unpaid losses by the assuming insurer to allow for the evaluation of the criteria set forth in paragraph 13.f.

f. The assuming insurer must maintain a practice of prompt payment of claims under reinsurance agreements. The lack of prompt payment will be evidenced if any of the following criteria is met: *(Model #786, Section 9C(6))*

i. More than fifteen percent (15%) of the reinsurance recoverables from the assuming insurer are overdue and in dispute as reported to the commissioner;

ii. More than fifteen percent (15%) of the assuming insurer’s ceding insurers or reinsurers have overdue reinsurance recoverable on paid losses of 90 days or more which are not in dispute and which exceed for each ceding insurer $100,000, or as otherwise specified in a covered agreement; or

iii. The aggregate amount of reinsurance recoverable on paid losses which are not in dispute, but are overdue by 90 days or more, exceeds $50,000,000, or as otherwise specified in a covered agreement.

g. The assuming insurer’s supervisory authority must confirm to the commissioner on an annual basis, as of the preceding December 31 or at the annual date otherwise statutorily reported to the Reciprocal Jurisdiction, that the assuming insurer complies with the requirements set forth in paragraphs 13.b. and 13.c. *(Model #786, Section 9C(7))*

h. Nothing in this provision precludes an assuming insurer from providing the commissioner with information on a voluntary basis. *(Model #786, Section 9C(8))*

i. The commissioner shall timely create and publish a list of Reciprocal Jurisdictions. *(Model #785, Section 2F(2) and Model #786, Section 9D)*

i. A list of Reciprocal Jurisdictions is published through the NAIC Committee Process. The commissioner’s list shall include any Reciprocal Jurisdiction as defined under paragraphs 13.a.i. and 13.a.ii., and shall consider any other Reciprocal Jurisdiction included on the NAIC list. The commissioner may approve a jurisdiction that does not appear on the NAIC list of Reciprocal Jurisdictions.
ii. The commissioner may remove a jurisdiction from the list of Reciprocal Jurisdictions upon a determination that the jurisdiction no longer meets one or more of the requirements of a Reciprocal Jurisdiction, except that the commissioner shall not remove from the list a Reciprocal Jurisdiction as defined under paragraphs 13.a.i. and 13.a.ii. Upon removal of a Reciprocal Jurisdiction from this list credit for reinsurance ceded to an assuming insurer domiciled in that jurisdiction shall be allowed, if otherwise allowed pursuant to this appendix.

i. The commissioner shall timely create and publish a list of assuming insurers that have satisfied the conditions set forth in paragraph 13 and to which cessions shall be granted credit in accordance with paragraph 13. *(Model #786, Section 9E)*

j. The commissioner shall timely create and publish a list of assuming insurers that have satisfied the conditions set forth in paragraph 13 and to which cessions shall be granted credit in accordance with paragraph 13. *(Model #786, Section 9E)*

i. If an NAIC accredited jurisdiction has determined that the conditions set forth in paragraph 13 have been met, the commissioner has the discretion to defer to that jurisdiction’s determination, and add such assuming insurer to the list of assuming insurers to which cessions shall be granted credit in accordance with this subsection. The commissioner may accept financial documentation filed with another NAIC accredited jurisdiction or with the NAIC in satisfaction of the requirements of paragraph 13.b., 13.c. and 13.d.

ii. When requesting that the commissioner defer to another NAIC accredited jurisdiction’s determination, an assuming insurer must submit a properly executed Form RJ-1 and additional information as the commissioner may require. A state that has received such a request will notify other states through the NAIC Committee Process and provide relevant information with respect to the determination of eligibility.

k. If the commissioner determines that an assuming insurer no longer meets one or more of the requirements under this section, the commissioner may revoke or suspend the eligibility of the assuming insurer for recognition under this section. *(Model #786, Section 9F)*

i. While an assuming insurer’s eligibility is suspended, no reinsurance agreement issued, amended or renewed after the effective date of the suspension qualifies for credit except to the extent that the assuming insurer’s obligations under the contract are secured in accordance with paragraph 19.

ii. If an assuming insurer’s eligibility is revoked, no credit for reinsurance may be granted after the effective date of the revocation with respect to any reinsurance agreements entered into by the assuming insurer, including reinsurance agreements entered into prior to the date of revocation, except to the extent that the assuming insurer’s obligations under the contract are secured in a form acceptable to the commissioner and consistent with the provisions of paragraph 19.

l. Before denying statement credit or imposing a requirement to post security with respect to paragraph 13.k. or adopting any similar requirement that will have substantially the same regulatory impact as security, the commissioner shall. *(Model #786, Section 9G)*

i. Communicate with the ceding insurer, the assuming insurer, and the assuming insurer’s supervisory authority that the assuming insurer no longer satisfies one of the conditions listed in paragraphs 13.a., 13.b. and 13.c.;
ii. Provide the assuming insurer with 30 days from the initial communication to submit a plan to remedy the defect, and 90 days from the initial communication to remedy the defect, except in exceptional circumstances in which a shorter period is necessary for policyholder and other consumer protection;

iii. After the expiration of 90 days or less, as set out in paragraph 13.1.ii., if the commissioner determines that no or insufficient action was taken by the assuming insurer, the commissioner may impose any of the requirements as set out in this subsection; and

iv. Provide a written explanation to the assuming insurer of any of the requirements set out in paragraph 13.1.

m. If subject to a legal process of rehabilitation, liquidation or conservation, as applicable, the ceding insurer, or its representative, may seek and, if determined appropriate by the court in which the proceedings are pending, may obtain an order requiring that the assuming insurer post security for all outstanding liabilities. *(Model #786, Section 9H)*

o. Nothing in this subsection shall limit or in any way alter the capacity of parties to a reinsurance agreement to agree on requirements for security or other terms in that reinsurance agreement, except as expressly prohibited by this appendix. *(Model #785, Section 2F(6))*

p. Credit may be taken under this subsection only for reinsurance agreements entered into, amended, or renewed on or after the effective date of the statute adding this subsection, and only with respect to losses incurred and reserves reported on or after the later of (i) the date on which the assuming insurer has met all eligibility requirements pursuant to paragraphs 13.a through 13.h., and (ii) the effective date of the new reinsurance agreement, amendment, or renewal. *(Model #785, Section 2F(7))*

i. This paragraph does not alter or impair a ceding insurer’s right to take credit for reinsurance, to the extent that credit is not available under this subsection, as long as the reinsurance qualifies for credit under any other applicable provision of this appendix.

ii. Nothing in this subsection shall authorize an assuming insurer to withdraw or reduce the security provided under any reinsurance agreement except as permitted by the terms of the agreement.

iii. Nothing in this subsection shall limit, or in any way alter, the capacity of parties to any reinsurance agreement to renegotiate the agreement.

1413. Credit shall be allowed when the reinsurance is ceded to an assuming insurer not meeting the requirements of paragraphs 8, 9, 10, 11, or 12 of this appendix, but only as to the insurance of risks located in jurisdictions where the reinsurance is required by applicable law or regulation of that jurisdiction.

1514. If the assuming insurer is not licensed, accredited or certified to transact insurance or reinsurance in the domiciliary state of the ceding insurer, the credit allowed by paragraphs 10 and 11 of this appendix shall not be allowed unless the assuming insurer agrees in the reinsurance agreements:

a. i. That in the event of the failure of the assuming insurer to perform its obligations under the terms of the reinsurance agreement, the assuming insurer, at the request of the ceding insurer, shall submit to the jurisdiction of any court of competent jurisdiction in any state of the United States, will comply with all requirements necessary to give the court
jurisdiction, and will abide by the final decision of the court or of any appellate court in
the event of an appeal.

ii. To designate the commissioner or a designated attorney as its true and lawful attorney
upon whom may be served any lawful process in any action, suit or proceeding instituted
by or on behalf of the ceding insurer.

b. This paragraph is not intended to conflict with or override the obligation of the parties to a reinsurance agreement to arbitrate their disputes,
if this obligation is created in the agreement.

If the assuming insurer does not meet the requirements of paragraphs 8, 9 or 10, the credit allowed by
paragraph 11 or 12 of this appendix shall not be allowed unless the assuming insurer agrees in the trust
agreements to the following conditions:

a. Notwithstanding any other provisions in the trust instrument, if the trust fund is inadequate because it contains an amount less than the amount
required by paragraph 11 c. of this appendix, or if the grantor of the trust has been declared insolvent or placed into receivership, rehabilitation, liquidation
or similar proceedings under the laws of its state or country of domicile, the trustee shall comply with an order of the commissioner with regulatory oversight
over the trust or with an order of a court of competent jurisdiction directing the trustee to transfer to the commissioner with regulatory oversight all of the
assets of the trust fund.

b. The assets shall be distributed by and claims shall be filed with and valued by the commissioner with regulatory oversight in accordance with the
laws of the state in which the trust is domiciled that are applicable to the liquidation of domestic insurance companies.

c. If the commissioner with regulatory oversight determines that the assets of the trust fund or any part thereof are not necessary to satisfy the claims
of the U.S. ceding insurers of the grantor of the trust, the assets or part thereof shall be returned by the commissioner with regulatory oversight to the trustee
for distribution in accordance with the trust agreement.

d. The grantor shall waive any right otherwise available to it under U.S. law that is inconsistent with this provision.

If an accredited or certified reinsurer ceases to meet the requirements for accreditation or certification, the
domestic state of the ceding insurer may suspend or revoke the reinsurer’s accreditation or certification.

a. The domestic state of the ceding insurer must give the reinsurer notice an opportunity for hearing. The suspension or revocation may not take effect until after the state’s order on hearing, unless:

i. The reinsurer waives its right to hearing;

ii. The state’s order is based on regulatory action by the reinsurer’s domiciliary jurisdiction
or the voluntary surrender or termination of the reinsurer’s eligibility to transact
insurance or reinsurance business in its domiciliary jurisdiction or in the primary
certifying state of the reinsurer under paragraph 12.f. of this appendix; or

iii. The domestic state of the ceding insurer finds that an emergency requires immediate
action and a court of competent jurisdiction has not stayed the state’s action.

b. While a reinsurer’s accreditation or certification is suspended, no reinsurance contract issued or
renewed after the effective date of the suspension qualifies for credit except to the extent that the
reinsurer’s obligations under the contract are secured in accordance with paragraph 1948. If a
reinsurer’s accreditation or certification is revoked, no credit for reinsurance may be granted after
the effective date of the revocation except to the extent that the reinsurer’s obligations under the
contract are secured in accordance with paragraph 12.e. or paragraph 1948.

Valuation of and Requirements for Trust Assets
1817. Assets deposited in the trust shall be valued according to their current fair market value and shall consist only of cash in U.S. dollars, certificates of deposit issued by a U.S. financial institution as defined in paragraph 5352, clean, irrevocable, unconditional and “evergreen” letters of credit issued or confirmed by a qualified U.S. financial institution, as defined in paragraph 5352, and investments of the type specified in this paragraph, but investments in or issued by an entity controlling, controlled by or under common control with either the grantor or beneficiary of the trust shall not exceed five percent (5%) of total investments. No more than twenty percent (20%) of the total of the investments in the trust may be foreign investments authorized under paragraphs 1847.a.v., c., f.ii. or g. of this paragraph, and no more than ten percent (10%) of the total of the investments in the trust may be securities denominated in foreign currencies. For purposes of applying the preceding sentence, a depository receipt denominated in U.S. dollars and representing rights conferred by a foreign security shall be classified as a foreign investment denominated in a foreign currency. The assets of a trust shall be invested only as follows:

a. Government obligations that are not in default as to principal or interest, that are valid and legally authorized and that are issued, assumed or guaranteed by:

i. The United States or by any agency or instrumentality of the United States;

ii. A state of the United States;

iii. A territory, possession or other governmental unit of the United States;

iv. An agency or instrumentality of a governmental unit referred to in paragraphs 1847.a.i. and 1847.a.ii. if the obligations shall be by law (statutory or otherwise) payable, as to both principal and interest, from taxes levied or by law required to be levied or from adequate special revenues pledged or otherwise appropriated or by law required to be provided for making these payments, but shall not be obligations eligible for investment under this paragraph if payable solely out of special assessments on properties benefited by local improvements; or

v. The government of any other country that is a member of the Organization for Economic Cooperation and Development and whose government obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC;

b. Obligations that are issued in the United States, or that are dollar denominated and issued in a non-U.S. market, by a solvent U.S. institution (other than an insurance company) or that are assumed or guaranteed by a solvent U.S. institution (other than an insurance company) and that are not in default as to principal or interest if the obligations:

i. Are rated A or higher (or the equivalent) by a securities rating agency recognized by the Securities Valuation Office of the NAIC, or if not so rated, are similar in structure and other material respects to other obligations of the same institution that are so rated;

ii. Are insured by at least one authorized insurer (other than the investing insurer or a parent, subsidiary or affiliate of the investing insurer) licensed to insure obligations in this state and, after considering the insurance, are rated AAA (or the equivalent) by a securities rating agency recognized by the Securities Valuation Office of the NAIC; or

iii. Have been designated as Class One or Class Two by the Securities Valuation Office of the NAIC;
c. Obligations issued, assumed or guaranteed by a solvent non-U.S. institution chartered in a country that is a member of the Organization for Economic Cooperation and Development or obligations of U.S. corporations issued in a non-U.S. currency, provided that in either case the obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC;

d. An investment made pursuant to the provisions of paragraph 1817.a., b. or c. shall be subject to the following additional limitations:

i. An investment in or loan upon the obligations of an institution other than an institution that issues mortgage-related securities shall not exceed five percent (5%) of the assets of the trust;

ii. An investment in any one mortgage-related security shall not exceed five percent (5%) of the assets of the trust;

iii. The aggregate total investment in mortgage-related securities shall not exceed twenty-five percent (25%) of the assets of the trust; and

iv. Preferred or guaranteed shares issued or guaranteed by a solvent U.S. institution are permissible investments if all of the institution’s obligations are eligible as investments under paragraphs 1817. b.i. and b.iii. of this paragraph, but shall not exceed two percent (2%) of the assets of the trust.

e. As used in this appendix:

i. “Mortgage-related security” means an obligation that is rated AA or higher (or the equivalent) by a securities rating agency recognized by the Securities Valuation Office of the NAIC and that either:

(a) Represents ownership of one or more promissory notes or certificates of interest or participation in the notes (including any rights designed to assure servicing of, or the receipt or timeliness of receipt by the holders of the notes, certificates, or participation of amounts payable under, the notes, certificates or participation), that:

(1) Are directly secured by a first lien on a single parcel of real estate, including stock allocated to a dwelling unit in a residential cooperative housing corporation, upon which is located a dwelling or mixed residential and commercial structure, or on a residential manufactured home as defined in 42 U.S.C.A. Section 5402(6), whether the manufactured home is considered real or personal property under the laws of the state in which it is located; and

(2) Were originated by a savings and loan association, savings bank, commercial bank, credit union, insurance company, or similar institution that is supervised and examined by a federal or state housing authority, or by a mortgagee approved by the Secretary of Housing and Urban Development pursuant to 12 U.S.C.A. Sections 1709 and 1715-b, or, where the notes involve a lien on the manufactured home, by an institution or by a financial institution approved for insurance by the Secretary of Housing and Urban Development pursuant to 12 U.S.C.A. Section 1703; or
(b) Is secured by one or more promissory notes or certificates of deposit or participations in the notes (with or without recourse to the insurer of the notes) and, by its terms, provides for payments of principal in relation to payments, or reasonable projections of payments, or notes meeting the requirements of paragraphs 1817.e.i.(a)(1) and 1817.e.i.(a)(2);

ii. “Promissory note,” when used in connection with a manufactured home, shall also include a loan, advance or credit sale as evidenced by a retail installment sales contract or other instrument.

f. Equity interests

i. Investments in common shares or partnership interests of a solvent U.S. institution are permissible if:

(a) Its obligations and preferred shares, if any, are eligible as investments under this paragraph; and

(b) The equity interests of the institution (except an insurance company) are registered on a national securities exchange as provided in the Securities Exchange Act of 1934, 15 U.S.C. §§ 78a to 78kk or otherwise registered pursuant to that Act, and if otherwise registered, price quotations for them are furnished through a nationwide automated quotations system approved by the Financial Industry Regulatory Authority, or successor organization. A trust shall not invest in equity interests under this paragraph an amount exceeding one percent (1%) of the assets of the trust even though the equity interests are not so registered and are not issued by an insurance company.

ii. Investments in common shares of a solvent institution organized under the laws of a country that is a member of the Organization for Economic Cooperation and Development, if:

(a) All its obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC; and

(b) The equity interests of the institution are registered on a securities exchange regulated by the government of a country that is a member of the Organization for Economic Cooperation and Development.

iii. An investment in or loan upon any one institution’s outstanding equity interests shall not exceed one percent (1%) of the assets of the trust. The cost of an investment in equity interests made pursuant to this paragraph, when added to the aggregate cost of other investments in equity interests then held pursuant to this paragraph, shall not exceed ten percent (10%) of the assets in the trust;

g. Obligations issued, assumed or guaranteed by a multinational development bank, provided the obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC.

h. Investment companies:

i. Securities of an investment company registered pursuant to the Investment Company Act of 1940, 15 U.S.C. § 802, are allowable investments if the investment company:
(a) Invests at least ninety percent (90%) of its assets in the types of securities that qualify as an investment under paragraphs 1847.a., 1847.b., or 1847.c., or invests in securities that are determined to be substantively similar to the types of securities set forth in paragraphs 1847.a., 1847.b., or 1847.c.; or

(b) Invests at least ninety percent (90%) of its assets in the types of equity interests that qualify as an investment under paragraph 1847.f.i.;

ii. Investments made by a trust in investment companies under this paragraph shall not exceed the following limitations:

(a) An investment in an investment company qualifying under paragraph 1847.h.i. (a) shall not exceed ten percent (10%) of the assets in the trust and the aggregate amount of investment in qualifying investment companies shall not exceed twenty-five percent (25%) of the assets in the trust; and

(b) Investments in an investment company qualifying under paragraph 1847.h.i. (b) of this paragraph shall not exceed five percent (5%) of the assets in the trust and the aggregate amount of investment in qualifying investment companies shall be included when calculating the permissible aggregate value of equity interests pursuant to paragraph 1847.f.i.

i. Letters of Credit

i. In order for a letter of credit to qualify as an asset of the trust, the trustee shall have the right and the obligation pursuant to the deed of trust or some other binding agreement (as duly approved by the commissioner), to immediately draw down the full amount of the letter of credit and hold the proceeds in trust for the beneficiaries of the trust if the letter of credit will otherwise expire without being renewed or replaced.

ii. The trust agreement shall provide that the trustee shall be liable for its negligence, willful misconduct or lack of good faith. The failure of the trustee to draw against the letter of credit in circumstances where such draw would be required shall be deemed to be negligence and/or willful misconduct.

Asset or Reduction from Liability for Reinsurance Ceded by a Domestic Insurer to an Assuming Insurer not Meeting the Requirements detailed above under “Credit Allowed a Domestic Ceding Insurer” (paragraphs 7-1847)

1948. An asset or a reduction from liability for the reinsurance ceded by a domestic insurer to an assuming insurer not meeting the requirements under “Credit Allowed a Domestic Ceding Insurer” (paragraphs 7-1847) shall be allowed in an amount not exceeding the liabilities carried by the ceding insurer. The reduction shall be in the amount of funds held by or on behalf of the ceding insurer, including funds held in trust for the ceding insurer, under a reinsurance contract with the assuming insurer as security for the payment of obligations thereunder, if the security is held in the United States subject to withdrawal solely by, and under the exclusive control of, the ceding insurer; or, in the case of a trust, held in a qualified U.S. financial institution, as defined under “Qualified U.S. Financial Institutions” at paragraph 5453. This security may be in the form of:

a. Cash;

b. Securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners, including those deemed exempt from filing as defined by the Purposes and Procedures Manual of the NAIC Securities Valuation Office, and qualifying as admitted assets;

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Drafting Note: The Purposes and Procedures Manual of the NAIC Securities Valuation Office has been renamed the Purposes and Procedures Manual of the NAIC Investment Analysis Office, however, the Model law refers to the previous name.

c. i. Clean, irrevocable, unconditional and evergreen letters of credit, issued or confirmed by a qualified U.S. financial institution, as defined in paragraph 5352, effective no later than December 31 of the year for which the filing is being made, and in the possession of, or in trust for, the ceding insurer on or before the filing date of its annual statement;

ii. Letters of credit meeting applicable standards of issuer acceptability as of the dates of their issuance (or confirmation) shall, notwithstanding the issuing (or confirming) institution’s subsequent failure to meet applicable standards of issuer acceptability, continue to be acceptable as security until their expiration, extension, renewal, modification or amendment, whichever first occurs.

d. An admitted asset or a reduction from liability for reinsurance ceded to an unauthorized assuming insurer pursuant to this appendix shall be allowed only when the requirements of paragraph 1514 and the applicable portions under the sections below titled “Trust Agreements Qualified under Paragraph 1918”, “Letters of Credit Qualified under Paragraph 1918”, and “Other Security” at paragraph 5150.

Trust Agreements Qualified under Paragraph 1918

2019. The trust agreement shall be entered into between the beneficiary, the grantor and a trustee, which shall be a qualified U.S. financial institution as defined in paragraph 5453.

2120. The trust agreement shall create a trust account into which assets shall be deposited.

2221. All assets in the trust account shall be held by the trustee at the trustee’s office in the United States.

2322. The trust agreement shall provide that:

a. The beneficiary shall have the right to withdraw assets from the trust account at any time, without notice to the grantor, subject only to written notice from the beneficiary to the trustee;

b. No other statement or document is required to be presented to withdraw assets, except that the beneficiary may be required to acknowledge receipt of withdrawn assets;

c. It is not subject to any conditions or qualifications outside of the trust agreement; and

d. It shall not contain references to any other agreements or documents except as provided for in paragraph 3029.

2423. The trust agreement shall be established for the sole benefit of the beneficiary.

2524. The trust agreement shall require the trustee to:

a. Receive assets and hold all assets in a safe place;

b. Determine that all assets are in such form that the beneficiary, or the trustee upon direction by the beneficiary, may whenever necessary negotiate any such assets, without consent or signature from the grantor or any other person or entity;

c. Furnish to the grantor and the beneficiary a statement of all assets in the trust account upon its inception and at intervals no less frequent than the end of each calendar quarter;

d. Notify the grantor and the beneficiary within ten (10) days, of any deposits to or withdrawals from the trust account;

e. Upon written demand of the beneficiary, immediately take any and all steps necessary to transfer absolutely and unequivocally all right, title and interest in the assets held in the trust account to the beneficiary and deliver physical custody of the assets to the beneficiary; and
f. Allow no substitutions or withdrawals of assets from the trust account, except on written instructions from the beneficiary, except that the trustee may, without the consent of but with notice to the beneficiary, upon call or maturity of any trust asset, withdraw such asset upon condition that the proceeds are paid into the trust account.

2625. The trust agreement shall provide that at least thirty (30) days, but not more than forty-five (45) days, prior to termination of the trust account, written notification of termination shall be delivered by the trustee to the beneficiary.

2726. The trust agreement shall be made subject to and governed by the laws of the state in which the trust is domiciled.

2827. The trust agreement shall prohibit invasion of the trust corpus for the purpose of paying compensation to, or reimbursing the expenses of, the trustee. In order for a letter of credit to qualify as an asset of the trust, the trustee shall have the right and the obligation pursuant to the deed of trust or some other binding agreement, as duly approved by the commissioner, to immediately draw down the full amount of the letter of credit and hold the proceeds in trust for the beneficiaries of the trust if the letter of credit will otherwise expire without being renewed or replaced.

2928. The trust agreement shall provide that the trustee shall be liable for its negligence, willful misconduct or lack of good faith. The failure of the trustee to draw against the letter of credit in circumstances where such draw would be required shall be deemed to be negligence and/or willful misconduct.

3029. Notwithstanding other provisions of this appendix, when a trust agreement is established in conjunction with a reinsurance agreement covering risks other than life, annuities and accident and health, where it is customary practice to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, only for the following purposes:

a. To pay or reimburse the ceding insurer for the assuming insurer’s share under the specific reinsurance agreement regarding any losses and allocated loss expenses paid by the ceding insurer, but not recovered from the assuming insurer, or for unearned premiums due to the ceding insurer if not otherwise paid by the assuming insurer;

b. To make payment to the assuming insurer of any amounts held in the trust account that exceed 102 percent of the actual amount required to fund the assuming insurer’s obligations under the specific reinsurance agreement; or

c. Where the ceding insurer has received notification of termination of the trust account and where the assuming insurer’s entire obligations under the specific reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the obligations and deposit those amounts in a separate account, in the name of the ceding insurer in any qualified U.S. financial institution as defined in paragraph 5453 apart from its general assets, in trust for such uses and purposes specified in paragraphs 3029.a. and b. above as may remain executory after such withdrawal and for any period after the termination date.

3130. Notwithstanding other provisions of this appendix, when a trust agreement is established to meet the requirements of paragraph 1948 in conjunction with a reinsurance agreement covering life, annuities or accident and health risks, where it is customary to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, only for the following purposes:

a. To pay or reimburse the ceding insurer for:
i. The assuming insurer’s share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurer, to the owners of policies reinsured under the reinsurance agreement on account of cancellations of the policies; and

ii. The assuming insurer’s share under the specific reinsurance agreement of surrenders and benefits or losses paid by the ceding insurer, but not yet recovered from the assuming insurer, under the terms and provisions of the policies reinsured under the reinsurance agreement;

b. To pay to the assuming insurer amounts held in the trust account in excess of the amount necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer; or

c. Where the ceding insurer has received notification of termination of the trust and where the assuming insurer’s entire obligations under the specific reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the assuming insurer’s share of liabilities, to the extent that the liabilities have not yet been funded by the assuming insurer, and deposit those amounts in a separate account, in the name of the ceding insurer in any qualified U.S. financial institution apart from its general assets, in trust for the uses and purposes specified in paragraphs 31.30a. and b. as may remain executory after withdrawal and for any period after the termination date.

3234. Either the reinsurance agreement or the trust agreement must stipulate that assets deposited in the trust account shall be valued according to their current fair market value and shall consist only of cash in United States dollars, certificates of deposit issued by a United States bank and payable in United States dollars, and investments permitted by the Insurance Code or any combination of the above, provided investments in or issued by an entity controlling, controlled by or under common control with either the grantor or the beneficiary of the trust shall not exceed five percent (5%) of total investments. The agreement may further specify the types of investments to be deposited. If the reinsurance agreement covers life, annuities or accident and health risks, then the provisions required by this paragraph must be included in the reinsurance agreement.

3332. Notwithstanding any other provisions in the trust instrument, if the grantor of the trust has been declared insolvent or placed into receivership, rehabilitation, liquidation or similar proceedings under the laws of its state or country of domicile, the trustee shall comply with an order of the commissioner with regulatory oversight over the trust or court of competent jurisdiction directing the trustee to transfer to the commissioner with regulatory oversight or other designated receiver all of the assets of the trust fund. The assets shall be applied in accordance with the priority statutes and laws of the state in which the trust is domiciled applicable to the assets of insurance companies in liquidation. If the commissioner with regulatory oversight determines that the assets of the trust fund or any part thereof are not necessary to satisfy claims of the U.S. beneficiaries of the trust, the assets or any part of them shall be returned to the trustee for distribution in accordance with the trust agreement.

3433. The trust agreement may provide that the trustee may resign upon delivery of a written notice of resignation, effective not less than ninety (90) days after the beneficiary and grantor receive the notice and that the trustee may be removed by the grantor by delivery to the trustee and the beneficiary of a written notice of removal, effective not less than ninety (90) days after the trustee and the beneficiary receive the notice, provided that no such resignation or removal shall be effective until a successor trustee has been duly appointed and approved by the beneficiary and the grantor and all assets in the trust have been duly transferred to the new trustee.

3534. The grantor may have the full and unqualified right to vote any shares of stock in the trust account and to receive from time to time payments of any dividends or interest upon any shares of stock or obligations included in the trust account. Any interest or dividends shall be either forwarded promptly upon receipt to the grantor or deposited in a separate account established in the grantor’s name.
3635. The trustee may be given authority to invest, and accept substitutions of, any funds in the account, provided that no investment or substitution shall be made without prior approval of the beneficiary, unless the trust agreement specifies categories of investments acceptable to the beneficiary and authorizes the trustee to invest funds and to accept substitutions that the trustee determines are at least equal in market value to the assets withdrawn and that are consistent with the restrictions in paragraph 3938.b.

3736. The trust agreement may provide that the beneficiary may at any time designate a party to which all or part of the trust assets are to be transferred. Transfer may be conditioned upon the trustee receiving, prior to or simultaneously, other specified assets.

3837. The trust agreement may provide that, upon termination of the trust account, all assets not previously withdrawn by the beneficiary shall, with written approval by the beneficiary, be delivered over to the grantor.

3938. A reinsurance agreement may contain provisions that:

a. Require the assuming insurer to enter into a trust agreement and to establish a trust account for the benefit of the ceding insurer, and specifying what the agreement is to cover;

b. Require the assuming insurer, prior to depositing assets with the trustee, to execute assignments or endorsements in blank, or to transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the ceding insurer, or the trustee upon the direction of the ceding insurer, may whenever necessary negotiate these assets without consent or signature from the assuming insurer or any other entity;

c. Require that all settlements of account between the ceding insurer and the assuming insurer be made in cash or its equivalent; and

d. Stipulate that the assuming insurer and the ceding insurer agree that the assets in the trust account, established pursuant to the provisions of the reinsurance agreement, may be withdrawn by the ceding insurer at any time, notwithstanding any other provisions in the reinsurance agreement, and shall be utilized and applied by the ceding insurer or its successors in interest by operation of law, including without limitation any liquidator, rehabilitator, receiver or conservator of such company, without diminution because of insolvency on the part of the ceding insurer or the assuming insurer, only for the following purposes:

i. To pay or reimburse the ceding insurer for:

(a) The assuming insurer’s share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurer, to the owners of policies reinsured under the reinsurance agreement because of cancellations of such policies;

(b) The assuming insurer’s share of surrenders and benefits or losses paid by the ceding insurer pursuant to the provisions of the policies reinsured under the reinsurance agreement;

(c) Any other amounts necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer;

ii. To make payment to the assuming insurer of amounts held in the trust account in excess of the amount necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer.

4039. The reinsurance agreement also may contain provisions that:

a. Give the assuming insurer the right to seek approval from the ceding insurer, which shall not be unreasonably or arbitrarily withheld, to withdraw from the trust account all or any part of the trust assets and transfer those assets to the assuming insurer, provided:
i. The assuming insurer shall, at the time of withdrawal, replace the withdrawn assets with other qualified assets having a current fair market value equal to the market value of the assets withdrawn so as to maintain at all times the deposit in the required amount; or

ii. After withdrawal and transfer, the current fair market value of the trust account is no less than 102 percent of the required amount.

b. Provide for the return of any amount withdrawn in excess of the actual amounts required for paragraph 3938.d., and for interest payments at a rate not in excess of the prime rate of interest on such amounts;

c. Allow the award by any arbitration panel or court of competent jurisdiction of:
   i. Interest at a rate different from that provided in paragraph 4039.b.;
   ii. Court or arbitration costs;
   iii. Attorney’s fees; and
   iv. Any other reasonable expenses.

4140. Financial Reporting - A trust agreement may be used to reduce any liability for reinsurance ceded to an unauthorized assuming insurer in statutory financial statements when established on or before the date of filing of the statutory financial statement of the ceding insurer. Further, the reduction for the existence of an acceptable trust account may be up to the current fair market value of acceptable assets available to be withdrawn from the trust account at that time, but such reduction shall be no greater than the specific obligations under the reinsurance agreement that the trust account was established to secure.

4241. The failure of any trust agreement to specifically identify the beneficiary as defined in paragraph 4 shall not be construed to affect any actions or rights that the commissioner may take or possess pursuant to the provisions of the laws of the domiciliary state.

Letters of Credit Qualified under Paragraph 1948

4342. The letter of credit must be clean, irrevocable, unconditional and issued or confirmed by a qualified U.S. financial institution as defined in paragraph 5352. The letter of credit shall contain an issue date and expiration date and shall stipulate that the beneficiary need only draw a sight draft under the letter of credit and present it to obtain funds and that no other document need be presented. The letter of credit also shall indicate that it is not subject to any condition or qualifications outside of the letter of credit. In addition, the letter of credit itself shall not contain reference to any other agreements, documents or entities, except as provided in paragraph 5049.a. If a court of law appoints a successor in interest to the named beneficiary, then the named beneficiary includes and is limited to the court appointed domiciliary receiver (including conservator, rehabilitator or liquidator).

4443. The heading of the letter of credit may include a boxed section containing the name of the applicant and other appropriate notations to provide a reference for the letter of credit. The boxed section shall be clearly marked to indicate that such information is for internal identification purposes only.

4544. The letter of credit shall contain a statement to the effect that the obligation of the qualified U.S. financial institution under the letter of credit is in no way contingent upon reimbursement with respect thereto.

4645. The term of the letter of credit shall be for at least one year and shall contain an “evergreen clause” that prevents the expiration of the letter of credit without due notice from the issuer. The “evergreen clause” shall provide for a period of no less than thirty (30) day notice prior to expiration date or nonrenewal.
The letter of credit shall state whether it is subject to and governed by the laws of the ceding insurers state or the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce (Publication 600) or International Standby Practices of the International Chamber of Commerce Publication 590 (ISP98), or any successor publication, and all drafts drawn thereunder shall be presentable at an office in the United States of a qualified U.S. financial institution.

If the letter of credit is made subject to the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce Publication 600 (UCP 600) or International Standby Practices of the International Chamber of Commerce Publication 590 (ISP98), or any successor publication, then the letter of credit shall specifically address and provide for an extension of time to draw against the letter of credit in the event that one or more of the occurrences specified in Article 36 of Publication 600 or any other successor publication, occur.

If the letter of credit is issued by a financial institution authorized to issue letters of credit, other than a qualified U.S. financial institution as described in paragraph 4342, then the following additional requirements shall be met:

a. The issuing financial institution shall formally designate the confirming qualified U.S. financial institution as its agent for the receipt and payment of the drafts; and

b. The “evergreen clause” shall provide for thirty (30) days notice prior to expiration date for nonrenewal.

Reinsurance agreement provisions:

a. The reinsurance agreement in conjunction with which the letter of credit is obtained may contain provisions that:

i. Require the assuming insurer to provide letters of credit to the ceding insurer and specify what they are to cover;

ii. Stipulate that the assuming insurer and ceding insurer agree that the letter of credit provided by the assuming insurer pursuant to the provisions of the reinsurance agreement may be drawn upon at any time, notwithstanding any other provisions in the agreement, and shall be utilized by the ceding insurer or its successors in interest only for one or more of the following reasons:

(a) To pay or reimburse the ceding insurer for:

(1) The assuming insurer’s share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurers, to the owners of policies reinsured under the reinsurance agreement on account of cancellations of such policies;

(2) The assuming insurer’s share, under the specific reinsurance agreement, of surrenders and benefits or losses paid by the ceding insurer, but not yet recovered from the assuming insurers, under the terms and provisions of the policies reinsured under the reinsurance agreement; and

(3) Any other amounts necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer;

(b) Where the letter of credit will expire without renewal or be reduced or replaced by a letter of credit for a reduced amount and where the assuming insurer’s entire
obligations under the reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the assuming insurer’s share of the liabilities, to the extent that the liabilities have not yet been funded by the assuming insurer and exceed the amount of any reduced or replacement letter of credit, and deposit those amounts in a separate account in the name of the ceding insurer in a qualified U.S. financial institution apart from its general assets, in trust for such uses and purposes specified in paragraph 5049.a.ii.(a) as may remain after withdrawal and for any period after the termination date.

iii. All of the provisions of paragraph 5049.a. shall be applied without diminution because of insolvency on the part of the ceding insurer or assuming insurer.

b. Nothing contained in paragraph 5049.a. shall preclude the ceding insurer and assuming insurer from providing for:

i. An interest payment, at a rate not in excess of the prime rate of interest, on the amounts held pursuant to paragraph 5049.a.ii.; or

ii. The return of any amounts drawn down on the letters of credit in excess of the actual amounts required for the above or any amounts that are subsequently determined not to be due.

Other Security

5150. A ceding insurer may take credit for unencumbered funds withheld by the ceding insurer in the United States subject to withdrawal solely by the ceding insurer and under its exclusive control.

5254. Credit will not be granted, nor an asset or reduction from liability allowed, to a ceding insurer for reinsurance effected with assuming insurers meeting the requirements of this appendix or otherwise in compliance with this appendix unless the reinsurance agreement:

a. Includes a proper insolvency clause, which stipulates that reinsurance is payable directly to the liquidator or successor without diminution regardless of the status of the ceding company;

b. Includes a provision pursuant to Section [cite state law equivalent to Section 2 of the Credit for Reinsurance Model Law] whereby the assuming insurer, if an unauthorized assuming insurer, has submitted to the jurisdiction of an alternative dispute resolution panel or court of competent jurisdiction within the United States, has agreed to comply with all requirements necessary to give the court or panel jurisdiction, has designated an agent upon whom service of process may be effected, and has agreed to abide by the final decision of the court or panel; and

c. Includes a proper reinsurance intermediary clause, if applicable, which stipulates that the credit risk for the intermediary is carried by the assuming insurer.

Qualified U.S. Financial Institutions

5352. For purposes of paragraphs 1847, 1948.c., 4342 and 4948, a “qualified U.S. financial institution” means an institution that:

a. Is organized or (in the case of a U.S. office of a foreign banking organization) licensed, under the laws of the United States or any state thereof;

b. Is regulated, supervised and examined by U.S. federal or state authorities having regulatory authority over banks and trust companies; and
c. Has been determined by either the commissioner or the Securities Valuation Office of the National Association of Insurance Commissioners to meet such standards of financial condition and standing as are considered necessary and appropriate to regulate the quality of financial institutions whose letters of credit will be acceptable to the commissioner.

5453. A “qualified U.S. financial institution” means, for purposes of those provisions of this appendix specifying those institutions that are eligible to act as a fiduciary of a trust, an institution that:

a. Is organized, or in the case of a U.S. branch or agency office of a foreign banking organization, licensed, under the laws of the United States or any state thereof and has been granted authority to operate with fiduciary powers; and

b. Is regulated, supervised and examined by federal or state authorities having regulatory authority over banks and trust companies.
Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting.

<table>
<thead>
<tr>
<th>SSAP/Appendix</th>
<th>Description/Revision¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSAP No. 62 – Revised Property and Casualty Reinsurance</td>
<td>Clarify wording in an existing disclosure, paragraph 116. This does not change the content of the disclosure just eliminates redundant phrase and breaks up two long sentences for readability.</td>
</tr>
<tr>
<td>SSAP No. 86—Derivatives</td>
<td>Proposes to reference SSAP No. 26R for the structured note definition instead of duplicating the definition in SSAP No. 86.</td>
</tr>
<tr>
<td>SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities</td>
<td>Adds two new suffixes for SVO filings that have been carried over from the prior year.</td>
</tr>
</tbody>
</table>

**Status:**

On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed editorial revisions to SSAP No. 62R—Property and Casualty Reinsurance, SSAP No. 86—Derivatives, and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as illustrated below.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted the exposed editorial revisions to SSAP No. 62R—Property and Casualty Reinsurance, SSAP No. 86—Derivatives, and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as final.

1. **SSAP No. 62R, paragraph 116**

   *The below revisions are for readability and are not intended to change the content of the disclosure.*

   116. Disclose if the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders. This disclosure is limited to reinsurance contracts with written premium cessions or loss and loss expense reserve cessions described in this paragraph that meet the criteria of paragraph 95.a. or paragraph 95.b. This disclosure excludes cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member.

   a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

   b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.
2. **SSAP No. 86, Exhibit A, paragraph 5g:**

   5 Derivative instruments include, but are not limited to; options, warrants used in a hedging transaction and not attached to another financial instrument, caps, floors, collars, swaps, forwards, futures, structured notes with risk of principal/original investment loss based on the terms of the agreement (in addition to default risk), and any other agreements or instruments substantially similar thereto or any series or combination thereof.

   g. “Structured Notes” in scope of this statement are instruments defined in SSAP No. 26R (often in the form of debt instruments), in which the amount of principal repayment or return of original investment is contingent on an underlying variable/interest. Structured notes that are “mortgage-referenced securities” are captured in SSAP No. 43R—Loan-backed and Structured Securities.

   Footnote 1: The “structured notes” captured within scope of this statement is specific to instruments in which the terms of the agreement make it possible that the reporting entity could lose all or a portion of its original investment amount (for other than failure of the issuer to pay the contractual amounts due). These instruments incorporate both the credit risk of the issuer, as well as the risk of an underlying variable/interest (such as the performance of an equity index or the performance of an unrelated security). Securities that are labeled “principal-protected notes” are captured within scope of this statement if the “principal protection” involves only a portion of the principal and/or if the principal protection requires the reporting entity to meet qualifying conditions in order to be safeguarded from the risk of loss from the underlying linked variable. Securities that may have changing positive interest rates in response to a linked underlying variable or the passage of time, or that have the potential for increased principal repayments in response to a linked variable (such as U.S. Treasury Inflation-Indexed Securities) that do not incorporate risk of original investment/principal loss (outside of default risk) are not captured as structured notes in scope of this statement.

3. **SSAP No. 97, Exhibit A, paragraph 49**

   64. By August 31 or one month after the audit report date of each year, the NAIC shall initiate a review of all SCA investments for which new Sub 2 form filings have been received as well as an annual update review of Sub 2 SCA investments already logged in the VISION database. The NAIC review shall encompass a review of the most recent annual statutory reporting by the parent insurance company's Schedule Y (to ascertain the identity of the members of the holding company system and to ensure that information for all SCA companies has been submitted), a review of the parent's financial statement blank to review the last reported value for the SCA investments and a review of the VISION database to determine whether SCA debt and SCA preferred securities have been assigned NAIC designations. As part of its analysis, the NAIC shall review the portion of the bond investments carried by the parent or a subsidiary insurer with a Z notation. If the NAIC determines that the portion of the Z bonds shown on the documentation is significant, the NAIC shall not process the Sub 2 filing until the insurance company reports the bonds to permit removal of the Z notation. Beginning with year-end 2019, two new suffixes will apply: YE and IF. YE means that the security is a properly filed annual update that the SVO has determined will not be assigned an NAIC Designation by the close of the year-end reporting cycle. The symbol YE is assigned by the SVO pursuant to the carryover administrative procedure described in Part One, Section 3 f) (iii) of this Manual. When the SVO assigns the symbol YE it also assigns the NAIC Designation in effect for the previous reporting year. IF means that the security is an initial filing that has been properly filed with the SVO but which the SVO has determined will not be assigned an NAIC Designation by the close of the year-end reporting cycle. The symbol IF is assigned by the SVO and communicates that the insurer should self-designate the security for year-end and identify it with the symbol IF. IF therefore also communicates to the regulator that the NAIC Designation reported by the insurance company was not derived by or obtained from the SVO, but has been determined analytically by a reporting insurance company.
Issue: ASU 2019-05, Targeted Transition Relief

Check (applicable entity):
- Modification of existing SSAP: P/C ☒ Life ☐ Health ☒
- New Issue or SSAP: ☒ Life ☐ Health ☐
- Interpretation: ☐ Life ☐ Health ☐

Description of Issue: In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. ASU 2016-13 also modified the accounting for available-for-sale debt securities, which must be individually assessed for credit losses when fair value is less than the amortized cost basis.

The FASB noted that financial statement preparers have begun to elect the fair value option on newly originated or purchased financial assets, although those entities historically have measured similar financial assets at an amortized cost basis. This adoption would require the maintenance of dual measurement methodologies for identical or similar financial instruments that are being managed in a similar manner. With this approach, users would not have decision useful information because the financial statements would not be comparable (i.e. a portion of an entity’s financial instruments measured at fair value versus other identical instruments measured at amortized costs that are owned by the same entity).

The amendments in this update provide an alternative accounting treatment to elect the fair value option for certain financial assets previously measured at amortized cost basis. The fair value option in this update does not apply to GAAP classified held-to-maturity debt securities.

Existing Authoritative Literature:
The existing guidance for the fair value is captured SSAP 100R—Fair Value. However, pursuant to statutory accounting, assets are required to be reported at the measurement method stipulated under the applicable SSAP. An election to utilize fair value in lieu of the stipulated measurement method (e.g., amortized cost) is not allowed under statutory accounting.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Significant activity has taken place regarding the analysis of ASU 2016-13: Financial Instruments – Credit Losses. Additional review and consideration is included in agenda item 2016-20.

Information or issues (included in Description of Issue) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): The IASB issued IFRS 9, Financial Instruments in July 2014 as a response to concerns identified pertaining to the delayed recognition of credit losses; however, the IASB’s stakeholders strongly preferred an impairment model that uses a dual measurement approach, while U.S. stakeholders strongly preferred the current expected credit loss model.
Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 100R to reject ASU 2019-05 for statutory accounting.

This item is proposed to be rejected as ASU 2019-05 provides an alternative accounting treatment for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost. Pursuant to statutory accounting, assets are required to be reported at the measurement method stipulated under the applicable SSAP. An election to utilize fair value in lieu of the stipulated measurement method (e.g., amortized cost) is not allowed under statutory accounting.

Proposed Revisions to SSAP No. 100R:


Staff Review Completed by: Jim Pinegar – June 2019

Status:
On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 100R—Fair Value, as illustrated above, to reject ASU 2019-05, Targeted Transition Relief for statutory accounting.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to SSAP 100R—Fair Value, as final, to reject ASU 2019-05, Financial Instruments—Credit Losses: Targeted Transition Relief for statutory accounting.
Statutory Accounting Principles (E) Working Group
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**Issue:** ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities.

**Check (applicable entity):**

- Modification of existing SSAP
- New Issue or SSAP Interpretation

**Description of Issue:**

In 2014, the FASB issued 1) *ASU 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill,* and 2) *ASU 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination,* which simplify the subsequent accounting for goodwill and certain identifiable intangible assets in business combinations. Those amendments were in response to concerns expressed by private companies regarding the cost and complexity of goodwill impairment tests and the accounting for certain identifiable intangible assets. When FASB issued both updates, it acknowledged that the issues addressed were not limited to private companies; they also pertain to not-for-profit entities.

Accordingly, FASB received feedback questioning the relevance and benefit of an impairment-only approach to goodwill and the accounting for identifiable intangible assets acquired in an acquisition by a not-for-profit entity. By providing an accounting alternative, this update will reduce the cost and complexity associated with the accounting for goodwill and the measurement of certain acquired identifiable intangible assets without significantly diminishing decision-useful information in not-for-profit financial statements.

The amendments in this update extend the private company alternatives from Topic 350 (ASU 2014-02) and Topic 805 (ASU 2014-18) to not-for-profit entities. Under this update, an alternative accounting treatment is offered to where if elected, a not-for-profit entity shall amortize goodwill on a straight-line basis over the lesser of 10 years or the demonstrated useful life. Additionally, a not-for-profit entity that elects this accounting alternative is required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. A not-for-profit entity is required to test goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity may be below its carrying amount. Finally, certain identifiable intangible assets such as customer related intangibles (i.e. mortgage servicing rights) and noncompete agreements would no longer be separately recognized from goodwill.

**Existing Authoritative Literature:**
The existing guidance for goodwill and subsequent amortization is referenced in *SSAP No. 68—Business Combinations and Goodwill and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.*

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None

**Information or issues (included in Description of Issue) not previously contemplated by the Working Group:** None
Convergence with International Financial Reporting Standards (IFRS):

IFRS standards do not provide industry guidance for not-for-profit entities regarding goodwill. However, the IASB is currently reviewing if it should retain the existing impairment only model for the subsequent accounting of goodwill, or reintroduce an amortization method, as noted in IFRS Agenda Paper 18B.

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 68 and SAP No. 97 to reject ASU 2019-06 for statutory accounting.

While the initial calculation of goodwill was not in scope of ASU 2019-06, this update provides optionality of an alternative accounting treatment for the straight-line amortization of goodwill for not-for-profit entities over the lesser of 10 years or the demonstrated useful life, subject to an impairment analysis performed in the event a triggering event occurs. Additionally, certain other identifiable intangible assets are no longer separately recorded and shall be combined into goodwill. As a point of reference, ASU 2019-06 is an extension of ASU 2014-02 to not-for-profit entities; ASU 2014-02 was previously rejected for SSAP.

This item is proposed to be rejected as ASU 2019-06 provides alternative accounting treatments for goodwill. Optionality treatment is not consistent with SSAP 68, specifically paragraphs 7 & 8, and SAP 97; however current SSAP guidance is similar as goodwill shall be amortized over the period in which the acquiring entity benefits economically, not to exceed 10 years. Additionally, impairment analysis shall occur in the event that a decline in an acquired entity’s fair value, that is other than temporary, may be below its carrying amount.

Proposed Revisions to SSAP No. 68:

20. This statement rejects ASU 2019-06, Intangibles—Goodwill and Other Business Combinations, and Non-for-Profit Entities, ASU 2017-04, Simplifying the Test for Goodwill Impairment, ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging, ASU 2014-02, Accounting for Goodwill (a consensus of the Private Company Council), ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, ASU 2011-08, Testing Goodwill for Impairment and ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts; Accounting Principles Board Opinion No. 16, Business Combinations; FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises, an amendment of APB Opinion No. 16; Accounting Principles Board Opinion No. 17, Intangible Assets; FASB Statement No. 79, Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises; FASB Statement No. 141, Business Combinations; and FASB Statement No. 142, Goodwill and Other Intangible Assets. The following related interpretative pronouncements are also rejected.

Proposed Revisions to SSAP No. 97:

48. This statement rejects ASU 2019-06, Intangibles—Goodwill and Other Business Combinations, and Non-for-Profit Entities, ASU 2011-10, Derecognition of in Substance Real Estate, APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, AICPA Accounting Interpretations APB 18, The Equity Method of Accounting for Investments in Common Stock: Accounting Interpretations of APB Opinion No. 18, FASB Technical Bulletin No. 79-19, Investor’s Accounting for Unrealized Losses on Marketable Securities Owned by an Equity Method Investee, FASB Emerging Issues Task Force No. 87-21, Change of Accounting Basis in Master Limited Partnership Transactions, FASB Emerging Issues Task Force No. 96-16, Investor’s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights, FASB Emerging Issues Task Force No. 98-2: Accounting by a Subsidiary or Joint Venture for an Investment in the stock of Its Parent Company or Joint Venture Partner and FASB Staff Position No. APB 18-1, Accounting by an Investor for Its

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Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence.

Staff Review Completed by: Jim Pinegar – June 2019

Status:
On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 68—Business Combinations and Goodwill and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as illustrated above, to reject ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities for statutory accounting.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to SSAP No. 68—Business Combinations and Goodwill and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as final, to reject ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities for statutory accounting.
Statutory Accounting Principles (E) Working Group
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Form A

Issue: ASU 2019-03, Updating the Definition of Collections

Check (applicable entity):

- Modification of existing SSAP
- New Issue or SSAP
- Interpretation

P/C  ☒  ☐  ☒
Life  ☐  ☒  ☐
Health  ☐  ☐  ☒

Description of Issue:
The term “collections” in the Master Glossary of the FASB Accounting Standards Codification is not fully aligned with the definition used in the American Alliance of Museums’ (AAM) Code of Ethics for Museums. Collections are to be defined as works of art, historical treasures, or similar assets that meet certain criteria: 1) held for public exhibition / education / research; 2) are protected, cared for, and preserved; 3) are subject to the organization’s policy that requires the use of proceeds from the sale of such items be used to acquire new collection items, the direct care of existing collections, or both.

The AAM definition used, which served as the basis for the guidance on collections in FASB Statement No. 116, Accounting for Contributions Received and Contributions Made, was revised by the AAM after the issuance of Statement 116. The FASB is issuing this update to improve the definition of collections in the Master Glossary by realigning it with the definition used by the AAM. The FASB also is making a technical correction in Topic 360, Property, Plant, and Equipment, to clarify that the accounting and disclosure guidance for collections in Subtopic 958-360, Not-for-Profit Entities—Property, Plant, and Equipment.

Existing Authoritative Literature:
There is no current SAP guidance for business entities that maintain collections. U.S. GAAP guidance for collections, primarily an issue for certain not-for-profit entities, is included in Topic 958.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in Description of Issue) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS):
IFRS standards do not provide industry guidance for entities that maintain collections.

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2019-03, Updating the Definition of Collections as not applicable to statutory accounting.

This item is proposed to be rejected as not applicable as ASU 2019-03 provides specific guidance, primarily for certain not-for-profit entities that maintain collections, which is not applicable for statutory accounting purposes.

Staff Review Completed by: Jim Pinegar – June 2019
Status:
On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2019-03, Updating the Definition of Collections as not applicable to statutory accounting.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements, as final, to reject ASU 2019-03, Updating the Definition of Collections as not applicable to statutory accounting.
Statutory Accounting Principles (E) Working Group
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Issue: *ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

Check (applicable entity):

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<tbody>
<tr>
<td>New Issue or SSAP Interpretation</td>
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</table>

**Description of Issue:**

The FASB issued *ASU 2018-08, Not-for-Profit Entities - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) in June 2018. Its intent is to clarify and improve the scope and accounting guidance for contributions received and contributions made. ASU 2018-08 should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or exchange (reciprocal) transactions and in determining whether the contribution is conditional. Distinguishing between contributions and exchange transactions is important as it determines which guidance to apply.

Diversity in application exists for grants and other similar contracts but is most prevalent for government grants and contracts. It has also been noted that it can be difficult to determine when a contribution is conditional, especially when an entity receives assets accompanied by certain stipulations but with no specified return requirement for when the stipulations are not met. There also isn’t uniformity in assessments of whether the likelihood of failing to meet a condition is remote and in evaluating whether and how remote provisions affect the timing of when a contribution is recognized.

Although accounting for contributions is primarily an issue for not-for-profit entities, the amendments in ASU 2018-08 are applicable to all entities, including business entities, that receive or make contributions of cash and other assets, including promises to give and contributions made. However, the amendments herein do not apply to transfers of assets from government entities to business entities. Contribution revenue may be presented in the financial statements of an entity using different terms (i.e. gift, grant, donation, etc.), but this should not be a factor for determining whether an agreement is within the scope of this guidance.

The amendments in this ASU clarify and improve the current guidance regarding whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred based on the following:

1. A resource provider is not synonymous with the general public. A benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider.
2. Execution of a resource provider’s mission or the positive sentiment from acting as a donor does not constitute commensurate value received by a resource provider for purposes of determining whether a transfer of assets is a contribution or an exchange.
Existing Authoritative Literature:

SSAP No. 67—Other Liabilities

Amounts Withheld or Retained by Company as Agent or Trustee
7. A reporting entity may, in the normal course of its business, withhold funds as an agent or trustee which will ultimately be paid to others.

8. Amounts withheld or retained by an entity as trustee or agent shall be recorded as a liability when the salaries or other compensation are expensed (paragraphs 8.a. and 8.b.) or the funds are received (paragraphs 8.c. through 8.e.). Examples of such occurrences are:

a. As an employer, the reporting entity deducts and withheld federal and state income taxes, social security taxes, charitable contributions, savings plan deductions, garnishments, employee contributions to pension plans, employee share of group life and health insurance premiums, and other employee salary withholdings or deductions;

b. Amounts due under deferred compensation arrangements shall be accrued in accordance with the provisions of SSAP No. 92—Postretirement Benefits Other Than Pensions (SSAP No. 92). Segregated funds (i.e., Rabbi trusts and similar arrangements) shall not be netted against the accrued liability unless the requirements of SSAP No. 64—Offsetting and Netting of Assets and Liabilities (SSAP No. 64) are met.

c. For a reporting entity that invests in commercial and residential mortgages, the entity may require the mortgagor to prepay real estate taxes and property insurance premiums which the entity will hold in escrow and pay when due;

d. The reporting entity holds deposits in connection with leases of investment property; and

e. The reporting entity may receive and hold other funds in a fiduciary capacity.

Remittances and Items Not Allocated
9. Cash receipts cannot always be identified for a specific purpose or, for other reasons, applied to a specific account when received. The reporting entity shall record a liability for these cash receipts when the funds are received. These liability accounts are generally referred to as suspense accounts. Examples include:

a. Premium payments received with the application for policies which have not yet been issued;

b. Premium payments in an amount different than the amount billed by the reporting entity; and

c. Unidentified cash receipts.

Interest Payable
10. Interest payable includes interest on debt, interest on real estate obligations, and approved interest on surplus notes. It also includes interest on funds held as a deposit or security, such as those held by a ceding company against a reinsurer. The amount to be reported is the amount which has accrued and is unpaid at the balance sheet date.

Payable to Parent, Subsidiaries and Affiliates
11. A liability shall be recognized and identified as due to affiliates for expenditures incurred on behalf of the reporting entity by a parent, affiliates, or subsidiaries or for amounts owed through other intercompany transactions. Amounts due to or from affiliates shall be offset and reported net only when the provisions of SSAP
No. 64 are met. Examples of these expenses are executive salaries, workers’ compensation insurance premiums, and pension contributions.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in Description of Issue) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS):

Staff Recommendation:
Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made as not applicable to statutory accounting.

Staff Review Completed by:
Fatima Sediqzad – June 2019

Status:
On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made as not applicable to statutory accounting.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made as not applicable to statutory accounting.
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**Issue:** Accounting for “Other” Derivatives

**Check (applicable entity):**

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<tr>
<td>Interpretation</td>
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**Description of Issue:**
This agenda item has been drafted to consider statutory accounting guidance for derivatives that are not used in hedging transactions, income generation transactions or replication (synthetic asset) transactions. This agenda item was directed with the adoption of agenda item 2018-18, Structured Notes, as it was noted that structured notes captured within scope of SSAP No. 86—Derivatives, would be unlikely to be used in the transactions with existing recognition and measurement guidance in SSAP No. 86.

Although the guidance of SSAP No. 86 is limited to the derivatives captured in the noted transactions (hedging, income generation or replication), the reporting schedule for derivatives (Schedule DB) currently includes an “other” derivative reporting category. Although this agenda item clarifies the accounting (measurement) value for these derivatives, as detailed within the proposed revisions, “other” derivatives do not qualify as admitted assets under the SSAP. Derivatives classified as “other” shall only be admitted in accordance with state investment laws that provide prescribed practices that permit admittance. These prescribed practices shall be detailed in Note 1. Derivatives reported in the “hedging-other” are derivatives subject to the “hedging” guidance in SSAP No. 86 and are not intended to be captured by this agenda item. This agenda item is strictly for the derivatives reported as “other” derivatives.

**Existing Authoritative Literature:**
SSAP No. 86—Derivatives establishes statutory accounting principles for derivative instruments and hedging, income generation and replication (synthetic asset) transactions using selected concepts outlined in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities.

Although the scope of SSAP No. 86 references “all derivative instruments” recognition and measurement provisions are only provided for specific transactions identified in paragraph 3:

3. This statement addresses the recognition of derivatives and measurement of derivatives used in:
   a. Hedging transactions;
   b. Income generation transactions; and
   c. Replication (synthetic asset) transactions.

4. “Derivative instrument” means an agreement, option, instrument or a series or combination thereof:
   a. To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or
b. That has a price, performance, value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests.

Activity to Date (issues previously addressed by the Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Revisions have recently adopted to SSAP No. 86 and additional revisions are expected to consider ASU 2017-12, Derivatives and Hedging. Recent revisions include:

- Ref # 2016-48 – Incorporated disclosures for financing derivatives.
- Ref# 2018-08 – Incorporate guidance to include structured notes in scope.
- Ref #2018-30 – Incorporated hedge documentation and assessment efficiencies from ASU 2017-12.

Information or issues (included in Description of Issue) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS):
U.S. GAAP and IFRS are consistent that all derivatives are reported at fair value, with changes recognized through income unless there is an election to apply hedge accounting. With hedge accounting, under IFRS and U.S. GAAP, derivatives are still reported at fair value, but the gain/loss may be recognized through other comprehensive income (instead of income).

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 86—Derivatives to include recognition and measurement guidance for derivatives that do not qualify as hedging, income generation or replication transactions. In addition to the proposed revisions specific for “other” derivatives, revisions are reflected in the headers to separate the application of existing guidance.

Working Group Question – With the language proposed, admittance of “other” derivatives under state investment laws will require a prescribed practice disclosure in Note 1. Working Group comments are requested on whether the language in the SSAP should permit admittance under state investment law. If this language was included, then a prescribed practice detailed in Note 1 would not be required.

Proposed Revisions to SSAP No. 86—Derivatives:

3. This statement addresses the recognition of derivatives and measurement of derivatives used in:

   a. Hedging transactions;
   b. Income generation transactions; and
   c. Replication (synthetic asset) transactions.
   d. Other Derivatives — (Derivatives that are not used in hedging, income generation or replication transactions.)

Impairment

17. This statement adopts the impairment guidelines established by SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets (SSAP No. 5R) for the underlying financial assets or liabilities.
Recognition of Derivatives

18. Derivative instruments represent rights or obligations that meet the definitions of assets (SSAP No. 4—Assets and Nonadmitted Assets) or liabilities (SSAP No. 5R) and shall be reported in financial statements. In addition, derivative instruments also meet the definition of financial instruments as defined in SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures (SSAP No. 27). Should the cost basis of the derivative instrument be undefined (i.e., no premium is paid), the instrument shall be disclosed in accordance with paragraphs 44-48 of SSAP No. 100R—Fair Value (SSAP No. 100R). Derivative instruments used in hedging, income generation or replication (synthetic asset) transactions shall be recognized and measured in accordance with the specific provisions within this statement and are admitted assets to the extent they conform to the requirements of this statement.

19. Derivative instruments that are not used in hedging, income generation or replication (synthetic asset) transactions shall be considered “Other” derivatives. These derivatives shall be accounted for at fair value and the changes in fair value shall be recorded as unrealized gains or losses. These derivatives do not qualify as admitted assets.

Derivatives Used in Hedging Transactions

19.20. Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset or liability (referred to as hedge accounting). For instance, assume an entity has a financial instrument on which it is currently receiving income at a variable rate but wishes to receive income at a fixed rate and thus enters into a swap agreement to exchange the cash flows. If the transaction qualifies as an effective hedge and a financial instrument on a statutory basis is valued and reported at amortized cost, then the swap would also be valued and reported at amortized cost. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge, or that meet the required criteria but the entity has chosen not to apply hedge accounting, shall be accounted for at fair value and the changes in the fair value shall be recorded as unrealized gains or losses (referred to as fair value accounting).

Recognition and Measurement of Derivatives Used in Income Generation Transactions

General

43-44. Income generation transactions are defined as derivatives written or sold to generate additional income or return to the reporting entity. They include covered options, caps, and floors (e.g., a reporting entity writes an equity call option on stock that it already owns).

Recognition and Measurement of Derivatives Used in Replication (Synthetic Asset) Transactions

53-54. Replication (Synthetic Asset) transaction means a derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. A derivative transaction entered into by an insurer as a hedging or income generation transaction shall not be considered a replication (synthetic asset) transaction.

Staff Review Completed by: Julie Gann – April 2019

Status:
On May 29, 2019, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 86—Derivatives, as shown above, to include
recognition and measurement guidance for derivatives that do not qualify as hedging, income generation or replication transactions.

On August 3, 2019, the Statutory Accounting Principles (E) Working Group re-exposed revisions to SSAP No. 86—Derivatives, as illustrated above, to clarify that “other” derivatives not used in hedging, income generation or replication shall be reported at fair value and do not qualify as admitted assets.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to SSAP No. 86—Derivatives, as detailed under Proposed Revisions, to clarify the recognition and measurement guidance for derivatives that do not qualify as hedging, income generation or replication transactions.
Issue: Reinsurance Credit

Check (applicable entity):

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<thead>
<tr>
<th>Modification of existing SSAP</th>
<th>P/C</th>
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<th>Health</th>
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<td>New Issue or SSAP</td>
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Description of Issue:
Regulators brought to the attention of the Working Group concerns regarding short-duration health reinsurance contracts which were termed quota share treaties but had features that limited the reinsurer’s risk. Concerns were noted that the reinsurance contracts were reported as meeting the “risk transfer” requirements under statutory accounting, but were not meeting “risk-transfer” requirements under U.S. GAAP. In addition, concerns were raised on whether similar reinsurance contracts that may meet risk transfer requirements for statutory accounting were taking a larger reinsurance accounting benefit than appropriate because the risk limiting features in the reinsurance contracts were limiting the actual amount of risks transferred. The Working Group directed NAIC staff to research and prepare an agenda item for subsequent discussion. Subsequent to this direction, the Working Group also received a referral from the Financial Analysis (E) Working Group noting additional concerns with short-duration contracts in particular and with a request that reinsurance disclosures designed to identify contracts with risk limiting features or noncompliant contracts that are required for SSAP No. 62R also be in SSAP No. 61R (See Activity to Date).

This agenda item addresses reinsurance risk transfer and accounting issues for clarification in statutory accounting primarily focused on reinsurance of short-duration products.

Overview of SSAP No. 61R (See Authoritative Literature in appendix for quotes of referenced material)

1. The scope of SSAP No. 61R is reinsurance of life deposit type and accident and health contracts.
2. While the majority of life contracts are long-duration, health has both long-duration (examples are long-term care and long-term disability) and short-duration products (example is group comprehensive health).
3. SSAP No. 61R explicitly quotes more of the FAS 113 long-duration contract risk transfer guidance.
4. Because SSAP No. 61R has more of a life contract (long-duration) focus it does not explicitly quote as much of short-duration risk transfer guidance from U.S. generally accepted accounting principles (GAAP) as SSAP No. 62R—Property and Casualty Reinsurance.
5. SSAP No. 61R adopts the following:
   a. GAAP guidance - FASB Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts (FAS 113) with modifications; FAS 113 provides general risk transfer guidance but the majority of the guidance is different based on the classification categories of long-duration contracts and short-duration contracts. (FAS 113 requirements were incorporated into FASB codification primarily in ASC 944-20 and the key risk transfers aspects of FAS 113 are unchanged by FASB codification.)
   b. Appendix A-791—Life and Health Reinsurance Agreements (Appendix A-791) is based on NAIC Model Law 791—Life and Health Reinsurance Agreements (Model 791). It provides criteria for reinsurance accounting for proportional reinsurance contracts (see additional detail in following pages). Reinsurance contracts which receive reinsurance accounting under Appendix A-791 do not contain identified features
which negate risk transfer. In addition, Appendix A-791 identifies significant risk categories by line of business that must be 100% ceded. The major risk categories are morbidity, mortality, lapse, credit quality, reinvestment and disintermediation. The current version of Model 791 was adopted by the NAIC in 1992.

c. Appendix A-785 is based on NAIC Model Law 785- Credit for Reinsurance (Model 785) which contains detailed information regarding when collateral is required and what types of collateral are acceptable in order to obtain credit for reinsurance. In general, collateral is required for unauthorized reinsurers and there is a sliding scale of collateral required for certified reinsurers. Model 785 is not the focus of this agenda item.

SSAP No. 61R adopts FAS 113 with modifications (See Authoritative Literature in appendix for quotes of referenced material)

SSAP No. 61R, paragraph 78, adopts FAS 113 with modifications noting that the statutory accounting principles established, reflect much more detailed guidance which differ substantially from GAAP. The documented list of statutory accounting modifications from FAS 113 includes 7 listed topics which are summarized below:

1. Reinsurance accounting reserve credits reduce reserves for policies, claims and unpaid claims (¶78.a.);
2. First year and renewal ceding commissions on indemnity reinsurance of new business are recognized as income and ceding commissions on ceded in-force business are included in the calculation of initial gain or loss (¶78b);
3. Initial gains on indemnity reinsurance of in-force blocks of business have unique accounting treatment which restricts the gains to the ceding entity until profits emerge (¶78d).
4. SSAP No. 61R prohibits recognition of a gain or loss in connection with the sale, transfer or reinsurance of an in-force block of business between affiliated entities in a non-economic transaction (¶78e).
5. SSAP No. 61R requires that a liability be established through a provision reducing surplus for unsecured reinsurance recoverables from unauthorized reinsurers (¶78f).
6. SSAP No. 61R prescribes offsetting certain reinsurance premiums (¶78g).
7. SSAP No. 61R, paragraph 78 explicitly notes the modifications to the FAS 113 risk transfer requirements regarding differences in GAAP and SAP classification of investment contracts, but does not note other modifications. The modification identifies contracts with insignificant mortality or morbidity risk (¶78c).

78c. As discussed in SSAP No. 50, statutory accounting defines deposit-type contracts as those contracts which do not include any mortality or morbidity risk. GAAP defines investment contracts as those that do not subject the insurance enterprise to significant policyholder mortality or morbidity risk. (The distinction is any mortality or morbidity risk for statutory purposes vs. significant mortality or morbidity risk for GAAP purposes.) Therefore, a contract may be considered an investment contract for GAAP purposes, and that same contract may be considered other than deposit-type for statutory purposes. A reinsurance treaty covering contracts that have insignificant mortality or morbidity risk (i.e., contracts classified as other than deposit-type contracts for statutory purposes, but investment contracts for GAAP purposes) that does not transfer that mortality or morbidity risk, but does transfer all of the significant risk inherent in the business being reinsured (e.g., lapse, credit quality, reinvestment or disintermediation risk) qualifies for reinsurance accounting for statutory reporting purposes, but would not qualify for reinsurance accounting treatment for GAAP purposes;

A-791 (See Authoritative Literature in appendix for quotes of referenced material)

The Model 791 proceedings citations (formerly known as the legislative history) notes that in 1985 the model was developed to prohibit reinsurance surplus aid abuses. Major revisions to Model 791 which are consistent with Appendix A-791, were adopted in 1992. The intent of the 1992 revisions was to provide more information to regulators on risk transfer, liability transfer and other considerations in regard to “surplus aid” reinsurance
contracts in order to promote more uniformity in their treatment. Included as part of the revision was a name change from “Model Regulation—Life Reinsurance Agreements” to “Life and Health Reinsurance Agreements Model Regulation.” While a review of the minutes, proceedings citations and the model indicate that Model 791 includes accident and health within its scope; most of the guidance in Model 791 is focused on life and the small amount of health specific guidance provided is secondary.

**Scope** – Appendix A-791 excludes assumption reinsurance, yearly renewable term reinsurance and certain non-proportional reinsurance such as stop loss or catastrophe reinsurance. Appendix A-791 refers the reader to paragraphs 19 and 20 of SSAP No. 61R for yearly renewable term reinsurance and non-proportional reinsurance. **Therefore, the primary focus of Appendix A-791 is proportional reinsurance agreements.**

The preamble to Model 791 notes that there are legitimate forms of surplus relief and forms that are improper. This preamble is similar to paragraph 2.k. of Appendix A-791, but includes additional information regarding intent. This preamble paragraph was noted in the 1992 minutes as significant to enforcing the provisions of the model; however, this paragraph is not included in Appendix A-791.

Appendix A-791 includes reinsurance contract provisions or functions that require deposit accounting by prohibiting reinsurance reserve credit (loss reserve reductions) or establishment of assets related to the reinsurance contracts that contain specified clauses and or functions. Loss reserve reductions and establishment of admitted reinsurance assets is referred to as reinsurance accounting or reinsurance credit. Appendix A-791 also contains a chart which notes “significant risks” inherent in lines of business reinsured. It notes that 100% of the identified significant risks must be reinsured to allow any reinsurance accounting treatment. Appendix A-791, paragraphs 2, 4, and 5 seek to ensure that the reinsurer has taken on the risks that result in the reinsurer “standing in the shoes” meaning that the reinsurer is in the same economic position as the ceding entity. Appendix A-791 also provides guidance that contract features which result in “impermanent” risk transfer or surplus aid which result in deposit accounting.

**Summary of Appendix A-791, by paragraph is below:**

Appendix A-791, paragraph 2 provides a list of items that can prohibit reinsurance accounting (resulting in deposit accounting instead). If any of the noted conditions are present in substance or effect, then the ceding entity is prohibited from establishing assets or reducing liabilities based on that reinsurance contract.

a. Renewal expense allowances are not enough to cover future administrative expenses (unless a liability is established for the present value of the shortfall).

b. Ceding insurer can be deprived of surplus/assets at the reinsurer’s option or automatically on the occurrence of an event (termination for nonpayment of premium or other amounts due is an exception).

c. **Ceding insurer is required to reimburse the reinsurer for negative experience under the contract.** Exceptions: netting losses against gains for experience refunds and payments upon voluntary recapture. It notes that a reinsurer cannot force recapture by excessive premium increases.

d. The ceding insurer must, at scheduled points in time terminate or recapture the contract.

e. **The reinsurance agreement has the possibility of payments from the ceding company that exceed the direct premiums charged to the insured.**

f. The treaty does not transfer 100% of the identified significant risks inherent in the business being reinsured. A table of product types and significant risks are identified (morbidity, mortality, lapse, credit quality, reinvestment, disintermediation). Short-duration health is required to transfer all of the morbidity and lapse risks.

g. The assets are not transferred or are not put in a segregated account when credit quality, reinvestment, and disintermediation risk are required to be transferred.
h. Settlements are made less frequently than quarterly.
i. The ceding company must make warranties not reasonably related to the business being reinsured.
j. The ceding company must make warranties about the future performance of the business being reinsured.
k. The reinsurance agreement is entered into for the principal purpose of producing significant surplus aid for the ceding insurer, typically on a temporary basis, while not transferring all of the significant risks inherent in the business reinsured and, in substance or effect; the expected potential liability to the ceding insurer remains basically unchanged.

Paragraph 3 provides accounting guidance regarding reinsurance of in-force blocks of business, which requires restriction of surplus gains until profits emerge.

Paragraphs 4-5 are contract features that are required to be present to achieve reinsurance accounting.

Paragraph 4: Letter of intent (or signed treaty) must be in place before the as-of date of the financial statement in order to apply reinsurance accounting.

Paragraph 5: Treaty must be signed within 90 days after the execution of a letter of intent.

Appendix A-791 also contains questions and answers for certain paragraphs that were incorporated from actuarial guideline JJJ. The questions and answers provide practical implementation information and are helpful regarding intent of some items. The rest of Actuarial Guideline JJJ was incorporated in *Actuarial Guideline 33 Determining CARVM Reserves for Annuity Contracts with Elective Benefits*, to provide guidance on elective versus non-elective benefits and language which described integrated benefit streams. Therefore, Actuarial Guideline JJJ does not currently exist as a separate guideline.

**Current Issues**

**FAS 113 and Appendix A-791**

The FAS 113 risk transfer guidance is adopted by reference, and is also affected by the modifications to FAS 113 listed in SSAP No. 61R. Such modifications include the differences between GAAP and SAP classification of certain contracts, such as contracts that statutory accounting classifies as other than deposit type contracts and GAAP classifies as investment type contracts. Appendix A-791 plays a crucial role in the application of risk transfer guidance for proportional life and health reinsurance contracts. However, both the FAS 113 and Appendix A-791 have to be reviewed in conjunction with each other. The interaction of SSAP No. 61R guidance with Appendix A-791 needs to be more explicit in SSAP No. 61R.

Appendix A-791 creates differences between GAAP and SAP definitions of risk transfer for proportional life and health reinsurance contracts. The SAP risk transfer threshold for proportional life and health reinsurance contracts can be either higher or lower than GAAP depending on the facts and circumstances. The different standard in Appendix A-791 applies to products that both GAAP and SAP classify as insurance and to products in which there are differences in insurance or non-insurance classification between GAAP and SAP. The provisions of Appendix A-791 result in reinsurance accounting only for proportional reinsurance contracts that 1) do not result in “impermanent” surplus and 2) result in the reinsurer being in a relatively equivalent economic position as the direct writer. Below are some examples of the different results that can occur:

1. GAAP and SAP are different - For a proportional reinsurance on products that both GAAP and SAP classify as an insurance contract, Appendix A-791 creates a different standard for determining risk...
transfer than GAAP. This standard can be either higher or lower than GAAP risk transfer requirements depending on the facts and circumstances.

a. Appendix A-791 requires 100% of identified significant risks to be transferred.

b. Appendix A-791 has several features that are prohibited in reinsurance contracts and also requires certain contractual features. These requirements and prohibitions are to ensure that the reinsurer is in a similar economic position as the ceding entity.

c. Appendix A-791 does not require reasonable possibility of significant loss to the reinsurer for proportional reinsurance contracts; however, as noted above, a reinsurance contract that complies with Appendix A-791 will result in a reinsurer that is in a similar economic position as the ceding entity.

To the extent a proportional reinsurance contract does not transfer 100% of the identified risks SAP has a higher threshold, because GAAP would allow reinsurance accounting for reinsurance contracts with less than 100% of the identified significant risks provided the reinsurer has reasonable possibility of loss. For these reinsurance contracts SAP (Appendix A-791) would require deposit accounting.

To the extent that a proportional contract transfers 100% of the identified risks and the reinsurer does not have a reasonable possibility of loss, SAP has a lower threshold because it would allow reinsurance accounting and GAAP would require deposit accounting.

To the extent that a proportional contract has reasonable possibility of loss to the reinsurer, but the reinsurance contract contains features prohibited by Appendix A-791, the SAP standard would require deposit accounting and be stricter than GAAP which would allow reinsurance accounting.

2. SAP allows reinsurance accounting in situations that GAAP prohibits - For a life or health product that GAAP classifies as an investment contract and SAP classifies as an insurance contract, SAP allows proportional reinsurance contracts which are compliant with Appendix A-791 to receive reinsurance accounting treatment. GAAP prohibits reinsurance accounting for these underling products because the products do not contain sufficient insurance risk. This is an intentional difference between SSAP No. 61R and FAS 113 and was necessary because some products are classified as life or other than deposit type insurance in statutory accounting based on the inclusion of any mortality or morbidity risk. The same products would likely be classified as an investment type contract for GAAP because the morbidity and mortality risk is not significant. SSAP No. 61R notes that a FAS 113 modification allows the transfer of risk for other than deposit type products if the reinsurance contract transfers 100% of the identified significant risks of the contract. Under FAS 113 such a reinsurance contract would not be classified as an investment contract, and not as insurance, due to the insignificant insurance risk. This is an intentional difference that can result in reinsurance accounting treatment for statutory accounting but not for GAAP.

Nonproportional Guidance in SSAP No. 61R

The rest of the text on risk transfer in SSAP No. 61R includes some of the FAS 113 long-duration guidance, and the rest of FAS 113 is adopted with the noted modifications by reference. SSAP No. 62R is more explicit on evaluation of non-proportional contracts and contains more of the FAS 113 short-duration risk transfer guidance. As a result, SSAP No. 62R is clearer than SSAP No. 61R regarding risk transfer for reinsurance contracts which transfer less than all of the insurance risks, such as non-proportional reinsurance contracts. SSAP No. 61R, paragraph 38, notes that reinsurance accounting for non-proportional reinsurance contracts is determined in a way that is similar to how property and casualty reinsurance accounting is determined. This agenda item recommends additional language on nonproportional contracts for SSAP No., 61R.
Amount of Reinsurance Accounting Credit

Additional language in SSAP No. 61R and SSAP No. 62R is recommended to clarify that reinsurance contracts which pass reinsurance risk transfer can and will result in different reinsurance accounting credit (financial benefits) based on the terms and circumstances of the reinsurance contracts. There appears to be a misunderstanding that passing risk transfer always results in full proportional reinsurance accounting credit. However, a reinsurance contract which passes risk transfer still has to have the amount of reinsurance accounting credit separately determined. An example of this concept is that a catastrophe reinsurance treaty can pass risk transfer and still result in no initial reinsurance accounting credit. Principles-based guidance on the separate calculation of the reinsurance accounting credit would be beneficial for SSAP No. 61R and SSAP No. 62R.

Provisions of Appendix A-791 that Prohibit Reinsurance Accounting

a. Expected potential liability remains unchanged

Some of the short-duration reinsurance contracts that were brought to the attention of the Working Group were noted as RBC relief treaties and had a primary purpose of providing capital relief (as opposed to surplus relief). These reinsurance contracts were noted as not having an impact to the ceding entity’s expected liabilities – (e.g., the total liabilities were basically unchanged). Reflecting reinsurance accounting for a proportional reinsurance treaty when the surplus of the ceding entity remain basically unchanged in substance or effect would seem to be a violation of Appendix A-791, paragraph 2.k. Appendix A-791 Life and Health Reinsurance agreements prohibit reducing reinsurance liabilities of establishing reinsurance assets of a ceding entity if:

k. The reinsurance agreement is entered into for the principal purpose of producing significant surplus aid for the ceding insurer, typically on a temporary basis, while not transferring all of the significant risks inherent in the business reinsured and, in substance or effect, the expected potential liability to the ceding insurer remains basically unchanged.

b. All (100%) of the identified significant risks

Note that Appendix A-791, paragraph 2.f. requires all (100%) of the identified significant risks to be transferred. To the extent that the reinsuring clause or risk limiting features prevent all of the significant risk identified being transferred, the contract would not be eligible for reinsurance accounting treatment under Appendix A-791.

c. Proportional versus non-proportional reinsurance contracts

Appendix A-791 is for proportional reinsurance contracts and SSAP No. 61R includes additional guidance on risk transfer for non-proportional reinsurance contracts. SSAP No. 61R, paragraph 38 on non-proportional reinsurance, notes that reinsurance accounting credit is determined in a way that is similar to the way property and casualty reinsurance accounting credit is determined. This is because these modes of reinsurance more closely follow property and casualty indemnification principles than life insurance formula basis and these coverages are very similar to excess insurance on property and casualty products. In determining the appropriate reserve credit, the probability of a loss penetrating to the reinsurer's level of coverage (using reasonable assumptions) must be multiplied by the expected amount of recovery. That means that the determination of the amount of acceptable reinsurance accounting credit should take into account the amounts that the reinsurer is reasonably expected to pay.
Reinsurance contracts with large sliding scale commissions, loss corridors and other risk limiting features raise questions regarding whether a reinsurance contract that starts out as being labeled proportional, is proportionate in substance, or if the risk limiting features cause the contract to perform more like a non-proportional contract. Barron’s dictionary of Insurance Terms notes proportional reinsurance is:

A type of reinsurance whereby the reinsurer shares losses in the same proportion as it shares premium and policy amounts.

The FAWG referral, noted in the activity to date section, provides a similar concern and seems to describe a contract that would not be compliant with Appendix A-791 paragraphs 2.k. and 2.f.:

Some of the short-duration health reinsurance contracts that regulators have brought to the attention of the Working Group and noted by the Financial Analysis (E) Working Group utilize loss corridors, sliding scale commissions, or other risk-limiting features to significantly limit the risk transferred to the reinsurer. Often these limitations result in a quota share reinsurance agreement operating more like an excess of loss reinsurance agreement, but the ceding insurer is accounting for the contract as if full, proportional reinsurance were in place. In certain cases, the ceding insurers have lost millions of dollars on certain blocks of business and even reached insolvency, while the reinsurers have continued to recognize profits on the contracts.

Some treaties that were labeled as proportional do not operate proportionately when the risk limiting features in total are considered and some treaties seem to be taking a larger reinsurance accounting credit than the risk transferred under the contract indicates or are taking a reinsurance accounting credit when transfer is not indicated. Note that classifying a contract as proportional when it is not, or taking a reinsurance accounting credit when a contract is not compliant with SSAP No. 61R and Appendix A-791, can result in either an inappropriate reinsurance accounting credit or result in a reinsurance accounting credit that is greater than allowed when the cash flows of the contract are evaluated for the possibility of loss.

Disclosure (See Authoritative Literature in appendix for quotes of referenced material)

The short-duration health reinsurance contracts that were brought to the attention of the Working Group members have risk limiting features. SSAP No. 62R—Property and Casualty Reinsurance, paragraphs 93-98, began requiring audited disclosures in the statutory annual statement interrogatories and supplements related to reinsurance contracts with risk limiting features in 2006. The purpose of the disclosures is to identify certain reinsurance contracts with risk limiting features with provisions that limit losses below the stated quota share percentage or delay timely reimbursement for further regulatory review. The disclosures also require reporting entities to affirm that they have verified risk transfer in the reinsurance contracts which received prospective reinsurance accounting credit.

The FAWG referral noted health disclosure concerns noting:

While P&C insurers are required to disclose some of these features in the interrogatories, health insurers are not, and FAWG continues to be surprised by the fact that GAAP seems to prevent some of these contracts from being recorded as meeting risk transfer requirements while SAP may not. Although the number of P&C companies reporting these features and differences in GAAP/SAP reporting may be limited, they appear to be more prevalent in troubled company situations and are being offered by otherwise well-regarded reinsurers.

This agenda item recommends additional disclosures for SSAP No. 61R
Existing Authoritative Literature:

- SSAP No. 61R—Life, Deposit-Type, and Accident and Health Reinsurance
- SSAP No. 62R—Property and Casualty Reinsurance
- Statement of Financial Accounting Standards No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts
- Appendix A-791 Life and Health Reinsurance Agreements

In researching reinsurance risk transfer in SSAP No. 61R, staff notes the following key points:

- SSAP No. 61R, paragraph 78 adopts the FAS 113 with modifications.
- FAS 113 requirements were incorporated into FASB codification primarily in ASC 944-20 and the key risk transfers aspects of FAS 113 are unchanged by FASB codification.
- SSAP No. 61R includes a risk transfer discussion that is similar to the long-duration risk transfer discussion in FAS 113, however slightly more GAAP text on risk transfer was explicitly incorporated into SSAP No. 62R.
- In addition to the FAS 113 risk transfer requirements, SSAP No. 61R, paragraph 79 incorporates requirements from the Credit for Reinsurance (Model 785) and the Life and Health Reinsurance (Model 791).
- Model 785 contains detailed information regarding when collateral is required and what types of collateral are acceptable in order to obtain credit for reinsurance. In general, collateral is required for unauthorized reinsurers and there is a sliding scale of collateral required for certified reinsurers.
- Model 791 contains examples of contract clauses that negate risk transfer and identifies significant insurance risk that must be ceded in full. (summarized above)
- Model 791 excludes yearly renewable term (YRT) which is a type of life reinsurance under which the risks, but not the permanent plan reserves, are transferred to the reinsurer for a premium that varies each year with the amount at risk and the ages of the insured. Although the model excludes YRT, most of the requirements from paragraph 2 and 3 of A-791 are required to be followed in SSAP No. 61R. This agenda item is not focused on Yearly Renewable Term reinsurance contracts.

Activity to Date (issues previously addressed by the SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups):

At the 2016 Fall National Meeting the chair of the Working Group, Mr. Bruggeman stated that he had been contacted by a regulator regarding the application of reinsurance risk transfer under SSAP No. 61R—Life, Deposit-Type, and Accident and Health Reinsurance. The Working Group directed NAIC staff to research this issue and, if necessary, prepare an interpretation or draft changes to SSAP No. 61R for future discussion. In providing more detail on the issue, Mr. Bruggeman stated that reporting entities may be concluding that risk-transfer requirements under U.S. GAAP are higher than the risk-transfer requirements under SSAP No. 61R. As both requirements are based on the same standard in Statement of Financial Accounting Standards No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts, he stated that this reporting entity interpretation is difficult to substantiate. NAIC staff was directed to provide subsequent information on their research.

Risk Limiting Features (E) Working Group was inactive in 2016, but it is charged with reviewing risk transfer guidance for property and casualty reinsurance. This group will re-activate this year and work on clarifying aspects of Financial Condition Examiner’s Handbook and Financial Analysis Handbook guidance.

The Financial Analysis (E) Working Group (FAWG) provided a referral to the Statutory Accounting Principles (E) Working Group in April 2017, which also noted and risk limiting features concerns and including for property and casualty entities and concerns regarding health disclosures. The following provides a summary of this referral:
The referral notes that the FAWG has recently discussed a number of troubled and potentially troubled insurers that have participated in quota share/proportional reinsurance contracts with significant risk-limiting features. In many of these situations, the motivation for the contracts appears to be surplus relief, without a significant amount of insurance risk being transferred to the reinsurer. The contracts often utilize loss corridors, sliding scale commissions, or other risk-limiting features to significantly limit the risk transferred to the reinsurer. Often these limitations result in a quota share reinsurance agreement operating more like an excess of loss reinsurance agreement, but the ceding insurer is accounting for the contract as if full, proportional reinsurance were in place. In certain cases, the ceding insurers have lost millions of dollars on certain blocks of business and even reached insolvency, while the reinsurers have continued to recognize profits on the contracts. While P&C insurers are required to disclose some of these features in the interrogatories, health insurers are not, and FAWG continues to be surprised by the fact that GAAP seems to prevent some of these contracts from being recorded as meeting risk transfer requirements while SAP may not. Although the number of P&C companies reporting these features and differences in GAAP/SAP reporting may be limited, they appear to be more prevalent in troubled company situations and are being offered by otherwise well-regarded reinsurers. Therefore, FAWG suggests further changes to SAP to prevent these situations.

Information or issues (included in Description of Issue) not previously contemplated by the SAPWG:
None


Staff Review Completed by:
Robin Marcotte, NAIC Staff - July 2017

Staff Recommendation:
NAIC staff recommends that the Working Group receive the referral from the Financial Analysis (E) Working Group, move this item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 61R, SSAP No. 62R, Appendix A-791 and the Master Glossary as illustrated in Exhibit A (omitted from the 2019 Summer National Meeting Materials for brevity). The recommended course of action is summarized below, and the related revisions are illustrated on the following pages. The draft revisions and the noted exposure questions are recommended for exposure.

1. **Risk transfer clarifications SSAP No. 61R—Life and Health Reinsurance** – Expose clarifications to the guidance in SSAP No. 61R that emphasize categorizing reinsurance contracts correctly as either being proportional or non-proportional and make more explicit the interaction between Appendix A-791 which identifies the significant risks that must be 100% transferred for proportional reinsurance contracts and the remaining SSAP No. 61R risk transfer guidance. The proposed revisions also emphasize that the reinsurance accounting credit taken for reinsurance contracts that meet risk transfer criteria in SSAP No. 61R/ Appendix A-791 is only for the portion of risks actually transferred. Reinsurance credit should take into account all features of a contract including deductibles, loss ratio corridors, a loss caps, aggregate limits or any similar provisions.

2. **Risk transfer clarifications SSAP No. 62R—Property and Casualty Reinsurance** – Expose clarifications to the risk transfer guidance in SSAP No. 62R to make the existing guidance more clear reinsurance accounting credit taken for reinsurance contracts that meet risk transfer criteria only for the portion of risks actually transferred. These clarifications are intended to be consistent with the existing concepts highlighted in the SSAP No. 62R, paragraph 93 disclosure. This guidance notes that reinsurance contracts,
which contain features that limit the reinsurer’s losses below the stated quota share percentage (e.g. a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions), should reduce the amount of reinsurance accounting credit taken by the effects of any applicable limiting provision(s).

3. **Disclosures** – Expose disclosures, for 2018 reporting year in SSAP No. 61R based on the existing reinsurance disclosures in SSAP No. 62R in paragraphs 93-98 (adapted as needed using concepts from A-791). The disclosures would be to assist regulators in identifying reinsurance contracts that may require from additional regulatory scrutiny regarding risk transfer and or compliance with A-791.

Exposure questions- Request comments regarding the scoping of the disclosures in SSAP No. 61R.

4. **Updates to terminology** –
   a. Expose updates to the glossary in SSAP No. 61R for specific terms including the definition of proportional and non-proportional.
   b. Expose clarifications to the existing descriptions of proportional and nonproportional in SSAP No. 62R, paragraph 5 which are consistent with the proposed revisions to SSAP No. 61R (along with edits to subparagraph numbering).
   c. Expose updates to the Master Glossary to define how to classify short-duration and long-duration for statutory accounting. These are GAAP terms (quoted in Authoritative literature) which have historically not been adopted in statutory accounting, however, recent updates to SSAP No. 35R also referenced this terminology.

**Exposure questions** – Request comments on the current SSAP No. 61R glossary definitions, which are currently defined in a life specific context: coinsurance, modified coinsurance and retention. Request comments on if adding short-duration and long-duration terms (modified for statutory accounting differences in classification) to the Master Glossary would be useful especially in the context of adopted GAAP guidance.

5. **Appendix A-791 updates to include the Model 791 preamble** – Expose updates to Appendix A-791 to incorporate language from the preamble of Model Law 791. This language from the model is indicative of the intent behind the Model, which was to prevent reinsurance accounting for reinsurance contracts that provide temporary surplus aid without transferring all of the significant risks so that the expected potential liability of the ceding insurer remains “basically unchanged.” This includes much of the existing language in paragraph 2.k. of Appendix A-791, but also provides additional detail regarding intent.

Exposure questions – Request comments on whether additional clarifications are needed on the interaction of Appendix A-791 and the risk transfer guidance or if the proposed changes to SSAP No. 61R are sufficient. Would adding to the questions and answers in A-791 regarding application be useful? If so, what questions should be addressed?

**Status:**
On August 6, 2017, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance, SSAP No. 62R—Property and Casualty Reinsurance and Appendix A-791—Life and Health Reinsurance, as illustrated in Exhibit A (omitted from the 2019 Summer National Meeting Materials for brevity), to clarify reinsurance contracts risk transfer requirements and to provide clarifications that reinsurance accounting credit for contracts that pass risk transfer is only for the amount of risk ceded. The agenda item also
updates terminology and incorporates new SSAP No. 61R disclosures to assist in reviewing contracts, similar to existing disclosures in SSAP No. 62R.

On November 6, 2017, the Statutory Accounting Principles (E) Working Group received comments. The Working Group provided the following direction for the next phase of work on this project:

1. NAIC staff was directed to work with Working Group and industry representatives to hold informal drafting calls to refine the exposure drafts for future Working Group consideration. The bi-weekly calls will generally be separate (P/C and Life) as feasible, with some combined calls for consistency issues.

2. The previously exposed revisions to add the GAAP definitions of short duration and long duration contracts to the master glossary would be removed going forward, as the comments from the Interested Parties and the ACLI responded that the proposed additional definitions were not helpful.

3. The suggested revisions to SSAP No. 62R, paragraph 29 on non-proportional reinsurance credit proposed by the interested parties provide a better starting point to redraft this paragraph. NAIC staff was directed to use this language and work with the informal drafting groups to add some non-proportional examples in the next phase of discussion. The proposed starting point language for SSAP No. 62R, paragraph 29 is as follows:

   29. Reporting entities shall not record reinsurance credit for non-proportional reinsurance until such time as losses have been incurred on the underlying business, which exceed the attachment point of the applicable reinsurance contract(s).

Recommendation for 2018 Summer National Meeting Discussion

The Informal Property and Casualty Drafting Group and an Informal Life and Health Drafting Group both of which include regulators and industry representatives have held several calls and recommend exposing the revisions described below:

1. **Informal Property and Casualty Drafting Group** - The drafting group recommends updates to SSAP No. 62R—Property and Casualty Reinsurance to incorporate GAAP guidance to be more consistent with ASC topic 994-20. The proposed revisions specifically incorporate more guidance from FASB Emerging Issues Task Force No. 93-6, Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises (EITF 93-6) and its related interpretation EITF D-035, FASB Staff Views on Issue No. 93-6, "Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises." SSAP No. 62R already, adopts EITF 93-6 with modification; however, it is incorporated by reference rather than explicitly quoted. As the informal drafting groups agrees that SSAP No. 62R intends to match GAAP to the extent feasible, the drafting group has recommended revisions to SSAP No. 62R text, and the existing Appendix to assist with addressing the concerns noted in the agenda item. These concerns include ensuring that credit for reinsurance reported by the cedant is not greater than the amount of risk ceded.

   Although the subgroup views the revisions as consistent updates, because of the extent of revisions, NAIC staff recommends categorizing these revisions to SSAP No. 62R as substantive and exposing the revisions to SSAP No. 62R as reflected in agenda item 2017-28 - Attachment Q1. (The attachment has several drafting notes to assist with review. These drafting notes are not planned to be in the final document.) During the exposure period, input on the effective date is also requested.

2. **Informal Life and Health Drafting Group** – The primary issue under discussion is how to provide clear pointers from SSAP No. 61R—Life and Health Reinsurance to the Appendix A-791 guidance so that users understand which contracts are subject to the guidance in the appendix, and to identify the contracts which not
subject to the appendix. The challenge is providing clear guidance that does not conflict with the existing appendix A-791, which is an accreditation standard model law. The Informal Life and Health Drafting Group recommends a partial exposure to obtain wider feedback on the scope of Appendix A-791 and proposed disclosures. The Informal Life and Health Drafting Group has prepared updates to the Appendix A-791 Q&A to assist with further defining the applicability of the Appendix. The drafting group will continue to work on revisions to the body of the statement, but believes feedback on the exposed QA revisions will assist with drafting further revisions. In addition, the drafting group has prepared disclosures for exposure also.

NAIC staff recommends exposing revisions to the SSAP No. 61R disclosure and the A-791 Q&A as reflected in agenda item 2017-28 - Attachment Q2. The Informal Life and Health Drafting Group is not recommending adoption of these revisions until the other revisions to the guidance in SSAP No. 61R are developed.

On August 4, 2018, the Statutory Accounting Principles (E) Working Group:

1. Exposed substantive revisions to SSAP No. 62R—Property and Casualty Reinsurance to incorporate guidance from EITF 93-6, Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises and from EITF D-035, FASB Staff Views on Issue No. 93-6. (Drafting notes are not planned to be in the final document.) The Working Group also requested, input on the effective date. See separate document.

2. Exposed nonsubstantive revisions to SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance to incorporate disclosures. The proposed revisions also update the question-and-answer guidance in Appendix A-791—Life and Health Reinsurance Agreements to clarify the applicability of A-791. Note that the exposure includes a request for comments on whether the proposed disclosures adequately address the Financial Analysis (E) Working Group referral with a notation, that the feedback will assist with ongoing drafting group work. See Exhibit B (omitted from the 2019 Summer National Meeting Materials for brevity).

Comments are requested on the following items related to the exposed SSAP No. 61R disclosures:

1. The drafting group discussion determined that the prior exposure for SSAP No. 61R, paragraph 83, which was based on SSAP No. 62, paragraph 94 with modifications to be consistent with A-791 was repetitive on compliance with A-791. The subgroup reviewed existing paragraph 94 a-d, in SSAP No. 62R and determined it was not useful in the context of SSAP No. 61R. Regulator and industry input is requested on any additional contract features that should be identified for disclosure.

2. The FAWG, requested disclosures similar to existing disclosures in SSAP No. 62R—Property and Casualty Reinsurance for SSAP No. 61R. However, the existing SSAP No. 62R disclosures could not copied into SSAP No. 61R exactly because of variations between product types and the Appendix A-791. Regulator input is requested regarding whether proposed disclosures would be sufficient to address regulatory concerns and or the FAWG request

3. Comments are requested regarding contracts identified for disclosure in paragraph 85 should be identified in the annual statement reinsurance schedule S with a signifier to avoid repeating details in the annual statement note, which may be in the statement schedule.

On November 15, 2018, the Statutory Accounting Principles (E) Working Group adopted, as final, substantive revisions to SSAP No. 62R that clarify the determination of reinsurance credit and incorporate language from
Ref #2017-28

EITF 93-6, Accounting for Multi-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises and EITF D-035, FASB Staff Views on Issue No. 93-6, with a January 1, 2019 effective date. The Working Group directed NAIC staff to draft an issue paper documenting the substantive revisions. The Working Group directed that comments received from Connecticut and New Jersey regarding SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance and Appendix A-791 be forwarded to the informal Life and Health Reinsurance Drafting Group for subsequent consideration.

On April 6, 2019, the Statutory Accounting Principles (E) Working Group exposed revisions to an issue paper to document for historical purposes the adopted revisions to SSAP No. 62R—Property and Casualty Reinsurance. Also, on April 6, 2019, the Working Group received an update from the Informal Life and Health Reinsurance Drafting Group, noting the following:

Prior Actions - At the 2018 Fall National Meeting, the Working Group heard comments on the exposure recommended by the informal life and health reinsurance drafting group. The revisions proposed updates to the A-791 Life and Health Reinsurance QA to clarify the applicability of A-791 and expand questions and answers to address business that has a statutorily required medical loss ratio or similar refund / rebate. In addition, the exposure proposed revised disclosures as requested by the Financial Analysis (E) Working Group. The Working Group directed the subgroup to expand their work to address group term life yearly renewable term (YRT) comments raised in comment letters from two states.

Interim Activity - The informal drafting group updated the membership to address the YRT issues raised and has held four calls. The YRT issues related to group term life risk that were raised are complex. While the informal drafting group does not have a recommendation for exposure at this time, they are making steady progress and appreciate the active engagement from regulators and industry. The primary areas that are being considered for updating are to the A-791 QA guidance and to the YRT guidance in SSAP No. 61R—Life and Health Reinsurance, paragraph 19. The drafting group will continue to hold calls on this topic in the interim and intends to have something to recommend for exposure by the 2019 Summer National Meeting.

Recommendation for 2019 Summer National Meeting Discussion

Receive Report of Interim Activity

The YRT issues related to group term life risk that were raised are complex. The informal drafting group is making steady progress and appreciates the active engagement from regulators and industry. The primary areas that were discussed in the interim were on updating the A-791 QA guidance and to the YRT guidance in SSAP No. 61R—Life and Health Reinsurance, paragraph 19.

The Informal Drafting Life and Health Reinsurance Drafting Group met 4 times during the interim year primarily focused on YRT issues. Additional meeting will continue as the Drafting Group works to address YRT issues also works on other topics such as non proportional reinsurance.

The informal drafting group reviewed prior exposures and their comments and recommends exposure of the following:

1. SSAP No. 61R Disclosures - These disclosures were previously exposed and the comments on the prior exposure have been reviewed by the drafting group. The disclosures are to address the request from the Financial Analysis (E) Working Group for life and health reinsurance contracts to have disclosure, which identify contracts with certain features including, risk limiting features. Similar to existing disclosures in SSAP No. 62R—Property and Casualty Reinsurance for SSAP No. 61R. However, the existing SSAP No. 62R disclosures could not copied into SSAP No. 61R exactly because of variations between product types
and the Appendix A-791. The drafting group also recommends notifying the Financial Analysis (E) Working Group of the exposure.

2. Two updates to the Appendix A-791 question and answers (QA)

   a. The informal life and health reinsurance-drafting group identified that the existing phrase “certain non-proportional reinsurance arrangements” in the current A-791 could benefit from additional guidance to promote consistent application. The proposed revisions to the answer below are to help identify non-proportional contracts, which are not subject to the Appendix A-791. The drafting group also reviewed the comments from Connecticut received from the August 2018 exposure and determined not to incorporate the YRT/RBC comments at this time as the YRT discussion is ongoing.

   b. The proposed Appendix A-791 question and answer regarding business that has a statutorily required medical loss ratio or similar refund / rebate. This item was previously exposed, and no questions were received. The drafting group did not recommend any additional revisions.

3. Add A-791 QA under paragraph 2c on YRT

   Regarding the YRT issues, industry drafted a Q&A in relation to paragraph 2c of A-791 for consideration. The regulator members agreed to the suggested approach to add the Q&A but eliminated the second part of the Answer that would continue to allow the reinsurer to charge premiums in excess of the underlying direct proportionate premium if the ceding entity established a liability for the excess amount. After further discussion, the regulator and industry members of the subgroup could not come to agreement.

   The industry members prefer to seek ways to explicitly allow the group term life YRT reinsurance contracts to exceed the amount of the underlying direct proportionate premium. The most recent industry proposal was to allow this, provided the ceding entity establishes a liability for the amount of reinsurance premium in excess of the direct premium. Industry discussed the commercial reasoning and argued that risk would still be transferred.

   The regulator members continued to question whether such group term life YRT contracts appropriately transferred risk if a reinsurer could charge premiums in excess of the underlying direct proportionate premium. It was noted that these contracts generally included other risk limiting features such as loss carry forward provisions and would typically not pass risk transfer requirements under GAAP. They also noted concerns that codifying the industry proposed exception in statutory accounting could result in unintended consequences and appeared to be designed address a commercial concern. Therefore, the regulator members proposed to accept the Q&A drafted by the industry but without wording that would allow reinsurers to charge premiums in excess of the underlying direct proportionate premium. The regulator members of the drafting group have requested exposure of the guidance to allow for specific concerns to be raised and addressed. This guidance provides that group term life YRT contracts which exceed the underlying direct premium are unreasonable and violate the provisions of paragraph 2c of A-791, and therefore, would not be subject to reinsurance accounting.
August 2019 Recommendation:
NAIC Staff recommends that the Working Group receive the drafting group recommendation on interim activity and expose for comment the following items which are illustrated below:

1. Disclosures, (previously exposed) Concurrent with the exposure, NAIC staff recommends that the Working Group also notify the Financial Analysis (E) Working Group of the exposure as the disclosures were originally developed at their request.

2. The two A-791 QA items one the topic of certain nonproportional reinsurance contracts covered under the A-791 and medical loss ratios (previously exposed – the drafting group reviewed the comments).

3. Regulator proposed revisions to add A-791 QA under paragraph 2c regarding group term life YRT reinsurance contracts. (which are not supported by industry members).

On August 3, 2019, the Statutory Accounting Principles (E) Working Group adopted, as final, Issue Paper No. 162—Property and Casualty to document for historical purposes the revisions related to SSAP No. 62R—Property and Casualty Reinsurance, which was adopted at the 2018 Fall National Meeting.

In addition to the issue paper adoption, on August 3, 2019, the Working Group also exposed for comment the following items which are illustrated below:

1. Disclosures, (previously exposed) and, directed notification to the Financial Analysis (E) Working Group of the exposure as the disclosures were originally developed at their request.

2. The two A-791 QA items related to certain nonproportional reinsurance contracts” covered under the A-791 and medical loss ratios (previously exposed – the drafting group reviewed the comments).

3. Regulator proposed revisions to add A-791 QA under paragraph 2c regarding group term life YRT reinsurance contracts.

Illustration of proposed revisions to SSAP No. 61R and A-791 exposed on August 3, 2019:

1. The revisions to SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance to incorporate disclosures proposed for exposure are as follows:

   Drafting Note: These disclosures were previously exposed, the shading is for minor edits recommended by the drafting group on June 11, 2019

   December 2019 Drafting Note: The disclosure paragraph numbering was updated from 81 – 87 as exposed to be 78 to 84 to reflect that the following disclosures will be inserted before existing paragraph 78. In addition, recommendations for Fall National meeting is illustrated language for Fall 2019 discussion illustrating the proposed December 31, 2020 effective date for the new disclosures.

   78. Disclosures for paragraphs 82-87, which are required to be included with the annual audit report financial statements beginning with the period ended December 31, 201X regarding reinsurance contracts. The disclosures required within paragraphs 82-87 shall be included in accompanying supplemental schedules of the annual audit report beginning in year-end 201X. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1996. This limitation applies to the annual audit report only and does not apply to the statutory annual statement.
interrogatories and the property and casualty reinsurance summary supplemental filing. *(Drafting Note: From SSAP No. 62R, paragraph 92)*

79. Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer’s assumption of significant risks identified as in A-791. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks. *(Drafting Note: Similar to SSAP No. 62R, paragraph 93, and is also relevant to A-791 evaluations.)*

80. Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer’s assumption of risk. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk limiting features. *(Drafting Note: Similar to SSAP No. 62R, paragraph 93.)*

81. Disclose if any reinsurance contracts which contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

   a. Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period). *(Drafting Note: From SSAP No. 62R, paragraph 94.e. and Appendix A-791, paragraph 2.e.)*

   b. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. *(Drafting Note: From SSAP No. 62R, paragraph 94.f., also relevant to risk transfer guidance in SSAP No. 61R)*

82. Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.

   a. Assumption Reinsurance – new for the reporting period.

   b. Non-proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured event(s) triggering contract coverage has been recognized.

83. Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either: *(Drafting Note: From SSAP No. 62R, paragraph 97)*

   a. Accounted for that contract as reinsurance under statutory accounting principles (“SAP”) and as a deposit under generally accepted accounting principles (“GAAP”); or

   b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

84. If affirmative disclosure is required for paragraph 86, explain why the contract(s) is treated differently for GAAP and SAP. *(Drafting Note: From SSAP No. 62R, paragraph 98)*
Drafting Note - These disclosures are expected to begin at existing paragraph 77 in SSAP No. 61R. The paragraph numbering will be updated in the final draft.

2. Proposed updates to A-791 QA (previously exposed)

a. Update to A-791 QA under paragraph 1 to address the phrase “certain non-proportional”

1. This Appendix shall not apply to assumption reinsurance, yearly renewable term reinsurance or certain non-proportional reinsurance such as stop loss or catastrophe reinsurance.

Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?

A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year’s premium, there will most likely be no regulatory concern.

Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer’s net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61R.

To further elaborate on the phrase “certain non-proportional reinsurance” in paragraph 1, the beginning of the answer notes that contracts such as stop-loss and catastrophe do not normally provide significant surplus relief, and are therefore not subject to the accounting guidance in Appendix A-791. Non-proportional reinsurance agreements are considered not to provide significant surplus relief if they possess all of the following features. For the purposes of defining these features, the term "triggering event" means the event or sequence of events that would lead to a loss being reimbursable by the reinsurer pursuant to the terms of the reinsurance agreement.

1. The triggering event has not occurred at the time of the inception of the reinsurance agreement.

2. The triggering event is materially less likely than not to occur during each settlement period of the reinsurance agreement.

3. There is no initial reinsurance credit for ceded policy reserves and any reinsurance expense allowance or commission is reported so that surplus is not impacted until the related premium is reported as earned.

These criteria shall be evaluated separately for each measurement period under the reinsurance agreement, where the measurement period is that period of time for which the direct writer’s experience is used to determine the amounts owed to and from the reinsurer. If there are carryforwards of experience debits or credits from one calendar year to the next, then those multiple years will be considered one settlement period.
The fact that the triggering event does eventually occur, is not itself evidence that the second criterion above has not been met. The criterion should be evaluated based on reasonable expectations rather than posteriori results.

b. New Appendix A-791 question and answer regarding business that has a statutorily required medical loss ratio or similar refund / rebate.

Q: If a company cedes health insurance business that is subject to a Medical Loss Ratio (MLR), or similar statutorily required refunds / rebates, must the reinsurer participate in the payment of any refunds / rebates?

A: The reinsurer needs to participate in the payment of its share of any statutorily required MLR or similar refund or rebate based on loss ratio calculations to the extent that the experience of the health business reinsured, during the period that it is reinsured, contributes to the calculation of the refund. Although the payment of such a refund based on the experience of business that is currently reinsured could result in a reduction of surplus on the part of the ceding insurer, if the reduction in surplus of the ceding insurer is entirely attributable to the experience prior to the effective date of the reinsurance, then it is outside of the contract requirements. Accordingly, such a provision should not cause a reinsurance agreement to be out of compliance with Appendix A-791 of the Accounting Practices and Procedure Manual. It is recognized that some refund calculations may involve multiple years.

Furthermore, just as an experience refund is not considered in the determination as to whether a reinsurance agreement is proportional, the requirement for the payment of a refund to policyholders based on a Medical Loss Ratio requirement should also not be considered.

Note: This Q&A only applies to refunds related to a statutory MLR or similar refund or rebate requirement for health insurance and should not be applied to any other situation.

3. Regulator Proposed Revisions Regarding YRT

Suggested new Q&A on group term life YRT for placement under paragraph 2c of A-791

2c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years' losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;

Q: If group term life business is reinsured under a YRT reinsurance agreement (which includes risk limiting features such as with an experience refund provision which offsets refunds against current and/or prior years’ losses (i.e., a “loss carryforward” provision), under what circumstances would any provisions of the reinsurance agreement be considered “unreasonable provisions which allow the reinsurer to reduce its risk under the agreement” thereby violating subsection 2.c.?

A: Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide. So long as the reinsurer cannot charge premiums in
excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable.

For Fall 2019 Discussion

NAIC Staff recommends that the Working Group take the following actions regarding the exposed items:

1. Adopt the exposed SSAP No. 61R disclosures (with paragraph number updates) reflected below and with an initial effective date of year end 2020 reporting. Proposed effective date language for the disclosures is illustrated below.

Fall 2019 Drafting Note: The disclosure paragraph numbering was updated from 81 – 87 as exposed to be 78 to 84 to reflect that the following disclosures will be inserted before existing paragraph 78. In addition, recommendations for Fall National meeting is illustrated language for Fall 2019 discussion illustrating the proposed December 31, 2020 effective date for the new disclosures:

78. Disclosures for paragraphs 82-87, which are required to be included with the annual audit report financial statements beginning with the period ended December 31, 201X regarding reinsurance contracts. The disclosures required within paragraphs 82-87 shall be included in accompanying supplemental schedules of the annual audit report beginning in year-end 201X. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1996. This limitation applies to the annual audit report only and does not apply to the statutory annual statement interrogatories and the property and casualty reinsurance summary supplemental filing. (Drafting Note: From SSAP No. 62R, paragraph 92)

79. Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer's assumption of significant risks identified as in A-791. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts which limit significant risks. (Drafting Note: Similar to SSAP No. 62R, paragraph 93, and is also relevant to A-791 evaluations.)

80. Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk limiting features. (Drafting Note: Similar to SSAP No. 62R, paragraph 93.)

81. Disclose if any reinsurance contracts which contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

   c. Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period). (Drafting Note: From SSAP No. 62R, paragraph 94.e. and Appendix A-791, paragraph 2.e.)

   d. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. (Drafting
82. Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.

   a. Assumption Reinsurance – new for the reporting period.

   b. Non-proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured event(s) triggering contract coverage has been recognized.

83. Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either: (Drafting Note: From SSAP No. 62R, paragraph 97)

   a. Accounted for that contract as reinsurance under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

   b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

84. If affirmative disclosure is required for paragraph 86, explain why the contract(s) is treated differently for GAAP and SAP. (Drafting Note: From SSAP No. 62R, paragraph 98)

Effective Date  (not previously exposed)

86. The disclosure for compliance with Model #787 or AG 48 shall be effective for reporting periods ending on or after December 31, 2015. The revisions adopted in November 2018 to expand liquidity disclosures are effective year-end 2019, concurrent with the inclusion of data-captured financial statement disclosures. The disclosures captured in paragraphs 78-84 which help to identify certain reinsurance contract features are effective for reporting periods ending on or after December 31, 2020.

2. Adopt the exposed revisions to A-791 question and answer regarding contracts with medical loss ratios.

3. Refer to the informal life and health reinsurance drafting group the exposed revisions to the A-791 question and answer update to clarify the phrase “certain non-proportional contracts” with informal questions received by NAIC staff regarding: 1) the application of the exposed language regarding measurement period and settlement period and, 2) the application of substantially less likely than not. During the interim the informal questions were distributed to the drafting group. Based on informal input from with various drafting group members, more discussion is needed regarding this question and answer item and this is an issue that the drafting group can lend some useful expertise.

4. Provide direction on the A-791 question and answer, regarding the paragraph 2c exposed regulator language. As noted in the summary section above, regulator and industry members of the drafting group could not come to agreement. Industry comments received still indicate opposition on the topic of limiting group term life YRT reinsurance contracts to being not greater than the amount of the underlying direct proportionate premium reinsurance premium for the contract to receive reinsurance accounting. If preferred, the Working Group could have further discussion and provide direction at a subsequent meeting as the drafting group has noted that the regulators and the industry members are not in agreement on this topic. In addition, request assistance and input from LATF on evaluation of YRT risk transfer.
On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted, as final:

1. Disclosure revisions to SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance, with an effective date of Dec. 31, 2020,
2. A-791—Life and Health Reinsurance Agreements Q&A updates regarding contracts with medical loss ratios
3. A-791—Life and Health Reinsurance Agreements Q&A for paragraph 2c. regarding risk transfer and group term life yearly renewable term reinsurance, with an effective date of Jan. 1, 2021.

The adopted revisions are illustrated below. The Working Group also directed staff to notify the Life Actuarial (A) Task Force of the adoptions.

The proposed revisions to A-791 Q&A regarding the scope of nonproportional contracts subject to Appendix A-791 was referred to the informal life and health reinsurance drafting group to address informal application questions.

1. **Adopted - SSAP No. 61R Disclosures**

78. Disclosures for paragraphs 79-84, are required to be included with the annual audit report financial statements beginning with the period ended December 31, 2020 regarding reinsurance contracts. The disclosures required within paragraphs 79-84 shall be included in accompanying supplemental schedules of the annual audit report beginning in year-end 2020. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1996. This limitation applies to the annual audit report only and does not apply to the statutory annual statement interrogatories and the property and casualty reinsurance summary supplemental filing.

79. Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer’s assumption of significant risks identified as in A-791. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks.

80. Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk limiting features.

81. Disclose if any reinsurance contracts contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

   a. Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).
   
   b. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.
82. Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.

   a. Assumption Reinsurance – new for the reporting period.

   b. Non-proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured event(s) triggering contract coverage has been recognized.

83. Disclose if the reporting entity ceded any risk which is not subject to Appendix A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

   a. Accounted for that contract as reinsurance under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

   b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

84. If affirmative disclosure is required for paragraph 86, explain why the contract(s) is treated differently for GAAP and SAP.

86. The disclosure for compliance with Model #787 or AG 48 shall be effective for reporting periods ending on or after December 31, 2015. The revisions adopted in November 2018 to expand liquidity disclosures are effective year-end 2019, concurrent with the inclusion of data-captured financial statement disclosures. The disclosures captured in paragraphs 78-84 which help to identify certain reinsurance contract features are effective for reporting periods ending on or after December 31, 2020.

2. Adopted new Appendix A-791 question and answer regarding business that has a statutorily required medical loss ratio or similar refund / rebate. This question relates to more than one topic, but will be placed under paragraph 2f. as a new QA item.

   Q: If a company cedes health insurance business that is subject to a Medical Loss Ratio (MLR), or similar statutorily required refunds / rebates, must the reinsurer participate in the payment of any refunds / rebates?

   A: The reinsurer needs to participate in the payment of its share of any statutorily required MLR or similar refund or rebate based on loss ratio calculations to the extent that the experience of the health business reinsured, during the period that it is reinsured, contributes to the calculation of the refund. Although the payment of such a refund based on the experience of business that is currently reinsured could result in a reduction of surplus on the part of the ceding insurer, if the reduction in surplus of the ceding insurer is entirely attributable to the experience prior to the effective date of the reinsurance, then it is outside of the contract requirements. Accordingly, such a provision should not cause a reinsurance agreement to be out of compliance with Appendix A-791 of the Accounting Practices and Procedure Manual. It is recognized that some refund calculations may involve multiple years.

   Furthermore, just as an experience refund is not considered in the determination as to whether a reinsurance agreement is proportional, the requirement for the payment of a refund to policyholders based on a Medical Loss Ratio requirement should also not be considered.

   Note: This Q&A only applies to refunds related to a statutory MLR or similar refund or rebate requirement for health insurance and should not be applied to any other situation.
3. **Adopted A-791—Life and Health Reinsurance Agreements Q&A for paragraph 2c. regarding risk transfer and group term life yearly renewable term reinsurance, with an effective date of Jan. 1, 2021, as detailed below. Placement would be at the end of the current paragraph 2c. QA items.**

2c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years' losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty.

Q: If group term life business is reinsured under a YRT reinsurance agreement (which includes risk limiting features such as with an experience refund provision which offsets refunds against current and/or prior years’ losses (i.e., a “loss carryforward” provision), under what circumstances would any provisions of the reinsurance agreement be considered “unreasonable provisions which allow the reinsurer to reduce its risk under the agreement” thereby violating subsection 2.c.?

A: Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide. So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is effective for contracts in effect as of January 1, 2021.

4. **Referred** the A-791 QA under paragraph 1 to address the phrase “certain non-proportional contracts” to the informal life and health reinsurance drafting group to address informal application questions received. The application questions received include: 1) the application of the exposed language regarding measurement period and settlement period and, 2) the application of substantially less likely than not.

1. **This Appendix shall not apply to assumption reinsurance, yearly renewable term reinsurance or certain non-proportional reinsurance such as stop loss or catastrophe reinsurance.**

Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?

A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern. Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.
Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61R.

To further elaborate on the phrase "certain non-proportional reinsurance" in paragraph 1, the beginning of the answer notes that contracts such as stop-loss and catastrophe do not normally provide significant surplus relief, and are therefore not subject to the accounting guidance in Appendix A-791. Non-proportional reinsurance agreements are considered not to provide significant surplus relief if they possess all of the following features. For the purposes of defining these features, the term "triggering event" means the event or sequence of events that would lead to a loss being reimbursable by the reinsurer pursuant to the terms of the reinsurance agreement.

1. The triggering event has not occurred at the time of the inception of the reinsurance agreement.

2. The triggering event is materially less likely than not to occur during each settlement period of the reinsurance agreement.

3. There is no initial reinsurance credit for ceded policy reserves and any reinsurance expense allowance or commission is reported so that surplus is not impacted until the related premium is reported as earned.

These criteria shall be evaluated separately for each measurement period under the reinsurance agreement, where the measurement period is that period of time for which the direct writer’s experience is used to determine the amounts owed to and from the reinsurer. If there are carry-forwards of experience debits or credits from one calendar year to the next, then those multiple years will be considered one settlement period.

The fact that the triggering event does eventually occur, is not itself evidence that the second criterion above has not been met. The criterion should be evaluated based on reasonable expectations rather than post-eriori results.
**Statutory Accounting Principles (E) Working Group**

**Maintenance Agenda Submission Form**

**Form A**

**Issue:** *ASU 2014-17, Business Combinations – Pushdown Accounting, a Consensus of the FASB Emerging Issues Task Force*

**Check (applicable entity):**

- Modification of existing SSAP
- New Issue or SSAP Interpretation

**Description of Issue:**

*ASU 2014-17, Business Combinations – Pushdown Accounting, a Consensus of the FASB Emerging Issues Task Force* (ASU 2014-17) was issued to provide guidance on whether and at what threshold an acquired entity that is a business or nonprofit activity can apply pushdown accounting in its separate financial statements. Prior to the issuance of this ASU, pushdown accounting was only required under U.S. GAAP for SEC registrants. Pursuant to the provisions in the ASU, acquirees now have the option to apply pushdown accounting. Pushdown accounting is a convention of accounting for the purchase of a subsidiary at the purchase cost rather than its historical basis. In effect, the acquiree’s assets and liabilities are written up (or down) to reflect the purchase price and, to the extent that the purchase price exceeds fair value, to recognize the excess as goodwill. In short, the total amount that is paid to purchase the subsidiary becomes the subsidiary’s new book value on its financial statements.

To illustrate the difference in applying pushdown accounting:

- Acquiree’s Book Value of Assets = $100 and Liabilities = $50.
- Acquiree’s Fair Value of Assets = $120 and Liabilities = $30.

If the purchase price was $90:

- “Normal” Purchase Accounting = Recognize SCA at $50 with the parent recognizing goodwill of $40.
- “Pushdown” Purchase Accounting = Recognize SCA at $90 with no goodwill recognized by the parent.

Under U.S. GAAP, goodwill is calculated as the purchase price of the acquiree less the market value of the acquiree. Any gains and losses associated with the new book value are “pushed down” from the acquirer’s income statement and balance sheet to the acquired company’s income statement and balance sheet. ASU 2014-17 states that an acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs, but it also has the option to apply pushdown accounting in a reporting period subsequent to its most recent change-in-control event. If pushdown accounting is applied in a subsequent reporting period, it will be considered a change in accounting principle.

Under statutory accounting, a business combination is accounted for as either a statutory purchase or a statutory merger. A business combination in which one entity is acquired by another, and a parent-subsidiary relationship is created, is accounted for as a statutory purchase. The acquirer reports its investment at cost, which is defined as the sum of (a) any cash payment, (b) the fair value of other assets distributed, (c) the fair value of any liabilities assumed, and (d) any direct costs of the acquisition. For acquired subsidiary, controlled and affiliated (SCA) entities valued...
under an equity method of accounting, goodwill is defined as the difference between the cost of acquiring the SCA and the reporting entity’s share of the book value of the SCA. For U.S. insurance SCAs, the historical basis of the SCA will continue to be used in preparing its statutory financial statements. As such, pushdown accounting is not permitted for this equity method of accounting.

While statutory accounting utilizes the framework that was established by U.S. GAAP, statutory accounting focuses on the balance sheet, as opposed to the income statement, and places additional emphasis on the concepts of consistency and conservatism due to this difference in reporting objectives. The use of pushdown accounting as an accounting method under statutory accounting is problematic for the reasons listed below.

- A change in the ownership of an entity should not result in a new basis of accounting for that entity in its separate financial statements as transactions affecting an entity’s stock should not affect the entity’s accounting.

- If the acquiree has entered into third-party agreements with terms related to financial statements presented on the existing basis of accounting, restatement under pushdown accounting could pose problems in determining or maintaining compliance with those requirements.

- In the event there are still minority ownership interests in the acquired entity, utilization of pushdown accounting would result in a different set of financial statements and these owners would not have a meaningful set of comparative financial statements.

- There isn’t a reasonable way to determine which owner’s transactions should qualify for pushdown accounting, in a scenario in which there are multiple owners who are deemed to control the acquiree (10%+ ownership of outstanding stock measured at the holding company level).

- Goodwill restrictions under statutory accounting, such as the admissibility of goodwill limited to 10% of the reporting entity’s surplus and amortization over a ten-year span, would essentially be eluded.

**Example of U.S. GAAP with and without Pushdown Accounting versus Statutory Accounting**

Entity A purchases 100% of Entity Z (which has a fair value of 200 and is on the books for $100, Assets = $200 and Liabilities = $100) for $500.

**Entity Z’s Accounting on Standalone Financials:**

<table>
<thead>
<tr>
<th></th>
<th>U.S. GAAP without Pushdown</th>
<th>U.S. GAAP with Pushdown</th>
<th>Statutory Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>300</td>
<td>500</td>
<td>200</td>
</tr>
<tr>
<td>Liabilities</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Equity</td>
<td>200</td>
<td>400</td>
<td>100</td>
</tr>
<tr>
<td>Goodwill</td>
<td>300</td>
<td>0</td>
<td>400</td>
</tr>
</tbody>
</table>

**Result:** Pushdown accounting increases the basis of the acquired entity from $100 under statutory accounting to $400 under U.S. GAAP. It also circumvents the goodwill restrictions under statutory accounting by increasing the basis of the acquired entity on its standalone financial statements.

**Actual SCA Filing**

NAIC Staff also refer to an actual SCA Sub 2 filing that was submitted during 2018 under the 8.b.iii valuation method (Non-Insurance SCA Entity under GAAP Basis). This acquisition was completed...
under the pushdown accounting method for U.S. GAAP. Since the existing guidance in SSAP No. 97 values 8.b.iii entities on the audited “U.S. GAAP equity of the investee,” the existing guidance does not allow for modifications/adjustments to remove the “pushdown accounting” impact. This allowed the parent reporting entity to avoid reporting goodwill for the acquired SCA. (Entity names and values have been changed.)

ABC purchased 50% of G for $500. G’s book value was $105 (Assets = $205 and Liabilities = $100) and fair value was $290.

**Entity G’s Accounting on Standalone Financials:**

<table>
<thead>
<tr>
<th></th>
<th>U.S. GAAP without Pushdown</th>
<th>U.S. GAAP with Pushdown</th>
<th>Statutory Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>390</td>
<td>600</td>
<td>205</td>
</tr>
<tr>
<td>Liabilities</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Equity</td>
<td>290</td>
<td>500</td>
<td>105</td>
</tr>
<tr>
<td>Goodwill</td>
<td>210</td>
<td>0</td>
<td>395</td>
</tr>
</tbody>
</table>

The insurance reporting entity’s investment in G was increased due to the goodwill that was paid as part of the acquisition of G. This results in a value of G that vastly differs between U.S. GAAP where pushdown accounting is used and statutory accounting, which is much more conservative.

**Existing Authoritative Literature:**

**SSAP No. 68—Business Combinations and Goodwill**

**Statutory Purchases of SCA Investments**

3. The statutory purchase method of accounting is defined as accounting for a business combination as the acquisition of one entity by another. It shall be used for all purchases of SCA entities including partnerships, joint ventures, and limited liability companies. The acquiring reporting entity shall record its investment at cost. Cost is defined as the sum of: (a) any cash payment, (b) the fair value of other assets distributed, (c) the fair value of any liabilities assumed, and (d) any direct costs of the acquisition.\(^{(INT 00-28)}\) Contingent consideration issued in a purchase business combination that is embedded in a security or that is in the form of a separate financial instrument shall be recorded by the issuer at fair value at the acquisition date.

4. For those acquired SCA entities accounted for in accordance with paragraphs 8.b.i., 8.b.ii., 8.b.iii. or 8.b.iv. of SSAP No. 97, and joint venture, partnership or limited liability company entities accounted for in accordance with paragraph 8 of SSAP No. 48, goodwill is defined as the difference between the cost of acquiring the entity and the reporting entity’s share of the book value of the acquired entity. When the cost of the acquired entity is greater than the reporting entity’s share of the book value, positive goodwill exists. When the cost of the acquired entity is less than the reporting entity’s share of the book value, negative goodwill exists. Goodwill resulting from assumption reinsurance shall be recorded as a separate write-in for other-than-invested assets. All other goodwill shall be reported in the carrying value of the investment.

5. A business combination accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with paragraphs 8.b.ii., 8.b.iii. or 8.b.iv. of SSAP No. 97 shall determine the amount of positive goodwill or negative goodwill created by the combination using the reporting entity’s share of the GAAP net book value of the acquired entity, adjusted to a statutory basis of accounting in accordance with paragraph 9 of SSAP No. 97 in the case of acquired entities valued in accordance paragraphs 8.b.ii. or 8.b.iv. of SSAP No. 97. Business combinations accounted for under the
statutory purchase method and in which the acquired entity is valued in accordance with, paragraph 8.b.i. of SSAP No. 97 shall determine the amount of positive or negative goodwill created by the business combination using the insurer’s share of the statutory book value of the acquired entity.

6. For those acquired SCA entities accounted for in accordance with paragraph 8.b.i. of SSAP No. 97 under the statutory purchase method, the historical bases of the acquired entity shall continue to be used in preparing its statutory financial statements. Therefore, pushdown accounting is not permitted.

7. Positive goodwill recorded under the statutory purchase method of accounting shall be admitted subject to the following limitation: Positive goodwill from all sources, including life, accident and health, and deposit-type assumption reinsurance, is limited in the aggregate to 10% of the acquiring entity’s capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted. When negative goodwill exists, it shall be recorded as a contra-asset. Positive or negative goodwill resulting from the purchase of an SCA, joint venture, partnership or limited liability company shall be amortized to unrealized capital gains and losses on investments over the period in which the acquiring entity benefits economically, not to exceed 10 years. Positive or negative goodwill resulting from life, accident and health, and deposit-type assumption reinsurance shall be amortized to operations as a component of general insurance expenses over the period in which the assuming entity benefits economically, not to exceed 10 years. Goodwill shall be evaluated separately for each transaction. (INT 01-18)

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities

Valuation of Investments in Downstream Holding Companies

22. SSAP No. 48 requires the financial statements of joint ventures, partnerships, and/or limited liability companies in which the downstream noninsurance holding company has a minor ownership interest or otherwise lacks control, i.e., ownership interest is less than 10% (hereinafter referred to as “non SCA SSAP No. 48 entities”), to be valued using U.S. GAAP basis financial statements. Valuation of a downstream holding company, including its investments in SCA entities, depends upon the nature of the SCA entities and non SCA SSAP No. 48 entities it holds in accordance with paragraph 8 of this statement. All liabilities, commitments, contingencies, guarantees or obligations of the downstream noninsurance holding company, which are required to be recorded under applicable statutory accounting guidance, shall be reflected in the parent insurance reporting entity’s determination of the carrying value of the investment in the downstream noninsurance holding company, if not already recorded in the financial statements of the downstream noninsurance holding company. If an SCA investment of the downstream holding company does not meet the provisions of paragraph 8.a. or if it elects not to use the guidance in paragraph 8.a., and instead uses the guidance in paragraph 8.b., the downstream holding company would be valued as the sum of the following (if applicable):

a. Investments by a downstream holding company in U.S. insurance SCA entities are recorded based upon the guidance in paragraph 8.b.i.;

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1 The “acquiring” entity is intended to reflect the insurance reporting entity that reports the investment resulting in goodwill. The goodwill limitation test shall be completed at the individual reporting company level.

2 This includes, but is not limited to, situations in which the investment is nonadmitted as the audited financial statements for the SCA, joint venture, partnership or limited liability company includes substantial doubt on the entity’s ability to continue as a going concern, or on the basis/contents of the audit opinion pursuant to paragraph 21 of SSAP No. 97.
b. Investments by a downstream holding company in noninsurance SCA entities that are engaged in transactions or activities described in paragraph 8.b.ii., are recorded based upon the guidance in paragraph 8.b.ii.;

c. Investments by a downstream holding company in noninsurance SCA entities that do not qualify under paragraph 21.b. shall be recorded based upon the guidance in paragraph 8.b.iii.;

d. Investments by a downstream holding company in foreign insurance SCA entities shall be recorded based upon the guidance in paragraph 8.b.iv.; and

e. Any other assets and/or liabilities of the downstream holding company (not addressed in paragraphs 21.a. through 21.d.) shall be valued in accordance with the applicable SSAP.

For purposes of applying paragraphs 21-26 of this statement, a downstream holding company shall be considered to be the parent reporting entity’s investment in a SCA entity. See paragraphs 25 and 26 for a limited exception to the audited financial statements requirement for downstream noninsurance holding companies which meet specified conditions.

Admissibility Requirements of Investments in Downstream Holding Companies

23. To meet the admissibility requirements of this statement, unless the limited exception to the audited financial statements requirement discussed in paragraphs 25 and 26 applies, an annual audit of the financial statements of SCA entities, including the downstream holding company valued under paragraphs 8.b.i through 8.b.iv. must be obtained. The requirement for audited financial statements may be met by utilizing any one of the following methods:

a. Audited US GAAP financial statements of the downstream SCA holding company. (Consolidated or combined financial statements are allowed encompassing one or more downstream holding companies, including such holding companies that directly own U.S. insurance entities, provided that the statutory financial statements of such U.S. insurance entities are audited. Annual consolidated or combined audits are allowed for insurance entities if completed in accordance with the Model Regulation Requiring Annual Audited Reports as adopted by the SCA’s domiciliary state.) The audited financial statements of the downstream holding company shall include as other financial information, consolidating or combining balance sheet schedule(s) showing the equity of all relevant SCA entities and non-SCA SSAP No. 48 entities, and any required intercompany eliminations. The consolidating or combining balance sheet schedule shall separately present those entities owned directly by the downstream holding company. The consolidating or combining balance sheet schedule shall then be adjusted for GAAP to SAP differences for paragraph 8.b.i., 8.b.ii. and 8.b.iv. entities owned directly or indirectly by the downstream holding company. The adjusted amount would then be the reported value of the investment in the downstream holding company at the higher-level reporting entity; or

b. Audited foreign GAAP-basis financial statements of the downstream SCA holding company. (Consolidated or combined financial statements are allowed encompassing one or more downstream holding companies, including such holding companies that directly own U.S. insurance entities, provided that the statutory financial statements of such U.S. insurance entities are audited. Annual consolidated or combined audits are allowed for insurance entities if completed in accordance with the Model Regulation Requiring Annual Audited Reports as adopted by the SCA’s domiciliary state.) The audited foreign GAAP basis financial statements shall include an audited footnote disclosure within the financial statements that reconciles each consolidated entity’s net income and equity on a foreign
basis of accounting to a U.S. GAAP basis. The audited financial statements of the downstream holding company shall include as other financial information, consolidating or combining balance sheet schedule(s) showing the equity of all relevant SCA entities non SCA SSAP No. 48 entities, and any required intercompany eliminations. The consolidating or combining balance sheet schedule shall separately present those entities owned directly by the downstream holding company. The consolidating or combining balance sheet schedule shall then be adjusted for GAAP to SAP differences of the insurance entities and paragraph 8.b.ii., and 8.b.iv. entities owned directly or indirectly by the downstream holding company. The adjusted amount would then be the reported value of the investment in the downstream holding company at the higher-level reporting entity; or

c. Individual audits of the downstream holding company and the downstream holding company’s investments in individual SCA entities.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): During the 2019 Summer National Meeting, the Working Group received information on the history of pushdown and information from discussions with AICPA and interested party representatives. This information has been captured in the agenda item for future reference:

**Comparison of SAP / GAAP Goodwill Guidance, including GAAP Pushdown:**

<table>
<thead>
<tr>
<th>SCA Acquisition</th>
<th>Purchase Price: $300</th>
<th>Asset Book Value: $90</th>
<th>Asset Fair Value: $150</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard SAP Accounting:</td>
<td>Investment in SCA: $90 Goodwill: $210</td>
<td>The combined $300 is reported as the investment in SCA, but the goodwill is separately reported and is subject to the SSAP No. 68 admittance restrictions and the 10-year amortization.</td>
<td></td>
</tr>
<tr>
<td>U.S. GAAP Standard:</td>
<td>Investment in SCA: $150 Goodwill: $150</td>
<td>When pushdown is not elected, under U.S. GAAP, goodwill is calculated on the difference between fair value and the purchase price. This is different than SAP where goodwill is calculated based on the difference between book value and the purchase price.</td>
<td></td>
</tr>
<tr>
<td>U.S. GAAP Pushdown:</td>
<td>Parent Reporting: Investment in SCA: $300</td>
<td>With pushdown, the reported value at the reporting entity level simply reflects the purchase price.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SCA Reporting: Assets: $150 Goodwill: $150</td>
<td>With pushdown, the acquired SCA increases the book value of their assets to fair value, and reports goodwill on their F/S for any remaining difference.</td>
<td></td>
</tr>
</tbody>
</table>

**Preliminary information from discussions with AICPA and Industry representations**

- Insurance reporting entities that were SEC filers have historically used pushdown when acquiring SCAs. This is because pushdown accounting was required for SEC filers and US GAAP allowed pushdown to prevent differences between the SEC and US GAAP.
With ASU 2014-17, the US GAAP guidance became an election for all reporting entities. As such, more entities may have elected to use pushdown, but no information is known as to the extent pushdown accounting has been applied.

For the SEC registrants that used pushdown, the U.S. GAAP guidance was followed. As such, at acquisition the assets and liabilities of the SCA were adjusted to fair value, and the goodwill calculated was the difference between the purchase price and the fair value of the SCA. (This is different from the goodwill calculation required under SSAP No. 68.) The goodwill was then recognized as an asset on the SCA books (and not at the insurance reporting entity level). This goodwill was subject to the U.S. GAAP impairment calculation, which requires annual testing of impairment, but was not subject to the admittance or amortization requirements of SSAP No. 68.

For non-SEC registrants that have elected pushdown under the new GAAP provisions, it is uncertain how goodwill was calculated prior to the pushdown. (Whether it was calculated under the guidance in SSAP No. 68 or under U.S. GAAP.)

Although U.S. GAAP now permits pushdown beyond SEC filers, pushdown is prohibited under IFRS.

Per the discussion with interested parties’ representatives, the acquisition of a new SCA from a non-related party is considered to be an economic transaction under SSAP No. 25. However, if the acquisition of an SCA was from a related party, it would not be considered an economic transaction. With classification as an economic transaction, the interested parties noted that increase of the SCA to represent fair value is consistent under SSAP No. 25.

Historical SAP Guidance:

The original Issue Paper No. 68 noted that pushdown should be prohibited in all SCA acquisitions. Issue Papers are not authoritative, and this guidance was not what was adopted in the original SSAP No. 68. There is no discussion in the original Issue Paper on the expansion that permitted pushdown for the “7.b.iii” entities in the issued SSAP No. 46. The expansion on the use of pushdown to all SCA entities except insurance SCA entities “8.b.i” was then reflected as a modification to SSAP No. 68 from the 2004 adoption of SSAP No. 88—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 46. (This revision expanded the ability to use pushdown accounting to noninsurance entities that engage in insurance “activities” and meet the revenue test under 8.b.ii.) There was no discussion in the corresponding Issue Paper (No. 118) regarding the expansion to all entities except insurance SCAs. NAIC staff suspects that as pushdown was limited to only SEC registrants under U.S. GAAP, the expansion to all entities that could use audited U.S. GAAP was not concerning as it would be applied only in the SEC-qualifying situations. This aspect of SSAP No. 68 has not been modified since the adoption of SSAP No. 88.

Original Codification of AP&P Manual – Effective Jan. 1, 2001:

Issue Paper No. 68—Business Combinations and Goodwill:

8. Under the statutory purchase method the historical bases of the acquired entity shall continue to be used in preparing its statutory financial statements except in those instances provided for in paragraph 8.b. of Issue Paper No. 46. Therefore, pushdown accounting is not permitted.
Issue Paper No. 46—Accounting for Investments in Subsidiary, Controlled or Affiliated Entities:

8b. If a SCA investment does not meet the requirements for the market valuation approach in paragraph 7.a. or, if the requirements are met, but a reporting entity elects not to use that approach, investments in SCAs shall be recorded as follows:

i. Investments in insurance SCA entities shall be recorded based on the underlying statutory equity of the respective entity's financial statements, adjusted for unamortized goodwill as provided for in Issue Paper No. 68—Business Combinations and Goodwill (Issue Paper No. 68);

ii. Investments in noninsurance SCA entities that have no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates, shall be recorded based on the underlying equity of the respective entity's financial statements adjusted to a statutory basis of accounting and the resultant proportionate share of the subsidiary's adjusted surplus, adjusted for unamortized goodwill as provided for in Issue Paper No. 68. Examples include but are not limited to: 1) an insurer and a SCA entity that leases autos, furniture, office equipment, or computer equipment to the insurer, 2) an insurer and a SCA entity that owns real estate property that is leased to the insurer for office space, and 3) an insurer and an SCA entity which holds investments which an insurer could acquire directly (i.e., "look through" investment subsidiary);

iii. Investments in noninsurance SCA entities that have significant ongoing operations beyond the holding of assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates, shall be recorded based on the audited GAAP equity of the investee. Examples include but are not limited to: 1) a property-casualty or life insurer and a SCA entity that is an oil and gas venture, and 2) a property-casualty or life insurer and a SCA manufacturer.

SSAP No. 68—Business Combinations and Goodwill

8. Under the statutory purchase method the historical bases of the acquired entity shall continue to be used in preparing its statutory financial statements except in those instances provided for in paragraph 7.b.iii of SSAP No. 46. Therefore, pushdown accounting is not permitted.

SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities:

7.b.iii. Investments in noninsurance SCA entities that have significant ongoing operations beyond the holding of assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates, shall be recorded based on the audited GAAP equity of the investee. Examples include but are not limited to: (i) a property-casualty or life insurer and a SCA entity that is an oil and gas venture, and (ii) a property-casualty or life insurer and a SCA manufacturer.

AP&P Manual – As of March 2005:

SSAP No. 88—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 46 detailed the amendments adopted to SSAP No. 68:

26. This statement supersedes paragraphs 4-6 of SSAP No. 68—Business Combinations and Goodwill as follows:

4. For those acquired SCA entities accounted for in accordance with paragraphs 8.b.i., 8.b.ii., 8.b.iii. or 8.b.iv. of SSAP No. 88, goodwill is defined as the difference between the cost of acquiring the entity and the reporting entity's share of the book value of the acquired entity. When the cost of the acquired entity is greater than the reporting entity's share of the book
value, positive goodwill exists. When the cost of the acquired entity is less than the reporting entity’s share of the book value, negative goodwill exists. Goodwill resulting from assumption reinsurance shall be recorded as a separate write-in for other-than-invested assets. All other goodwill shall be reported in the carrying value of the investment.

5. A business combination accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with paragraphs 8.b.ii., 8.b.iii. or, 8.b.iv. of SSAP No. 88 shall determine the amount of positive goodwill or negative goodwill created by the combination using the reporting entity’s share of the GAAP net book value of the acquired entity. Business combinations accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with, 8 b. i. SSAP No. 88 shall determine the amount of positive or negative goodwill created by the business combination using the insurer’s share of the statutory book value of the acquired entity.

6. For those acquired SCA entities accounted for in accordance with paragraph 8.b.i. under the statutory purchase method the historical bases of the acquired entity shall continue to be used in preparing its statutory financial statements. Therefore, pushdown accounting is not permitted.

Information or issues (included in Description of Issue) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS):
Currently, there is no guidance in IFRS on pushdown accounting as this is not a method of accounting that is accepted under IFRS.

Staff Recommendation:
Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose the proposed revisions to SSAP No. 68—Business Combinations and Goodwill and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities to reject ASU 2014-17, Business Combinations – Pushdown Accounting for statutory accounting. This agenda item also explicitly prohibits use of pushdown accounting under the statutory accounting basis, which includes all entities accounting for under SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies and SSAP No. 97. These revisions will explicitly prohibit insurance reporting entities that hold SCAs valued on the basis of U.S. GAAP (8.b.ii or 8.b.iii) to utilize a value for the SCA that reflects the impact of pushdown accounting. Insurance reporting entities that hold SCAs that utilized pushdown accounting for U.S. GAAP will be required to adjust their U.S. GAAP financial statements to remove the effect of pushdown accounting, and provide audited support of their modification. The insurance reporting entity shall recognize the difference between the purchase price and the net book value of the entity (prior to pushdown accounting) as goodwill in accordance with SSAP No. 68. This goodwill shall be admitted and amortized in accordance with the limitations and provisions of SSAP No. 68. The effective date of these revisions shall be Jan. 1, 2020.

Staff Note: Staff has considered that it will be more difficult to maintain separate sets of accounting records if multiple entities are acquired, especially with the complex nature of insurance company reporting structures. Staff also notes that the election to apply pushdown accounting under U.S. GAAP is irrevocable; as such, a grandfather provision will allow any SCAs acquired prior to December 31, 2019 to continue to use pushdown accounting in its financial statements.

Staff Review Completed by:
Fatima Sedigzad - NAIC Staff
March 2019
Proposed Revisions:

SSAP No. 68—Business Combinations and Goodwill

Business Combinations

2. A business combination shall be accounted for as either a statutory purchase or a statutory merger. Business combinations that create a parent-subsidiary relationship shall be accounted for as a statutory purchase. Business combinations where equity of one entity is issued in exchange for the equity of another entity, which is then canceled, and prospectively only one entity exists, shall be accounted for as a statutory merger.

Statutory Purchases of SCA Investments

3. The statutory purchase method of accounting is defined as accounting for a business combination as the acquisition of one entity by another. It shall be used for all purchases of SCA entities including partnerships, joint ventures, and limited liability companies. The acquiring reporting entity shall record its investment at cost. Cost is defined as the sum of: (a) any cash payment, (b) the fair value of other assets distributed, (c) the fair value of any liabilities assumed, and (d) any direct costs of the acquisition. Contingent consideration issued in a purchase business combination that is embedded in a security or that is in the form of a separate financial instrument shall be recorded by the issuer at fair value at the acquisition date. Pushdown accounting is not a permitted convention of accounting under statutory accounting, including the acquisition of an entity that follows U.S. GAAP as its basis of accounting.

6. For those acquired SCA entities accounted for using the equity method in accordance with paragraph 8.b. of SSAP No. 97 under the statutory purchase method, the historical basis of the acquired entity shall continue to be used in preparing its statutory financial statements. Therefore, pushdown accounting is not permitted, as noted in paragraph 20.

20. This statement rejects ASU 2017-04, Simplifying the Test for Goodwill Impairment, ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging; ASU 2014-17, Business Combinations – Pushdown Accounting, a Consensus of the FASB Emerging Issues Task Force; ASU 2014-02, Accounting for Goodwill (a consensus of the Private Company Council), ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, ASU 2011-08, Testing Goodwill for Impairment and ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts; Accounting Principles Board Opinion No. 16, Business Combinations; FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises, an amendment of APB Opinion No. 16; Accounting Principles Board Opinion No. 17, Intangible Assets; FASB Statement No. 79, Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises; FASB Statement No. 141, Business Combinations; and FASB Statement No. 142, Goodwill and Other Intangible Assets. The following related interpretative pronouncements are also rejected:

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities

Applying the Market Valuation, Audited Statutory Equity and Audited GAAP Equity Methods

8. The admitted investments in SCA entities shall be valued using either the market valuation approach (as described in paragraph 8.a.), or one of the equity methods (as described in paragraph 8.b.) adjusted as appropriate in accordance with the guidance in SSAP No. 25—Affiliates and Other Related Parties (SSAP No. 25), paragraph 16.d.

   a. In order to use the market valuation approach for SCA entities, the following requirements apply:
b. If a SCA investment does not meet the requirements for the market valuation approach in paragraph 8.a. or, if the requirements are met, but a reporting entity elects not to use that approach, the reporting entity’s proportionate share of its investments in SCAs shall be recorded as follows:

i. Investments in U.S. insurance SCA entities shall be recorded based on either 1) the underlying audited statutory equity of the respective entity’s financial statements, adjusted for any unamortized goodwill as provided for in SSAP No. 68—Business Combinations and Goodwill (SSAP No. 68)\(^3\) or 2) the underlying audited statutory equity of the respective entity’s financial statements, adjusted for any unamortized goodwill, modified to remove the impact of any permitted or prescribed accounting practices that depart from the NAIC Accounting Practices and Procedures Manual. Reporting entities shall record investments in U.S. insurance SCA entities on at least a quarterly basis, and shall base the investment value on the most recent quarterly information available from the SCA. Entities may recognize their investment in U.S. insurance SCA entities based on the unaudited statutory equity in the SCAs year-end Annual Statement if the annual SCA audited financial statements are not complete as of the filing deadline. The recorded statutory equity shall be adjusted for audit adjustments, if any, as soon as the annual audited financial statements have been completed. Annual consolidated or combined audits are allowed if completed in accordance with the Model Regulation Requiring Annual Audited Financial Reports as adopted by the SCA’s domiciliary state;

ii. Investments in both U.S. and foreign noninsurance SCA entities that are engaged in the following transactions or activities:

(a) Collection of balances as described in SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers

(b) Sale/lease or rental of EDP Equipment and Software as described in SSAP No. 16R—Electronic Data Processing Equipment and Software

(c) Sale/lease or rental of furniture, fixtures, equipment or leasehold improvements as described in SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements

(d) Loans to employees, agents, brokers, representatives of the reporting entity or SCA as described in SSAP No. 20—Nonadmitted Assets

(e) Sale/lease or rental of automobiles, airplanes and other vehicles as described in SSAP No. 20—Nonadmitted Assets

(f) Providing insurance services on behalf of the reporting entity including but not limited to accounting, actuarial, auditing, data processing,

\(^3\) If the insurance SCA employs accounting practices that depart from the NAIC accounting practices and procedures, and the reporting insurance entity has not adjusted the valuation of the insurance SCA to be consistent with the NAIC accounting practices and procedures, (i.e., retains the effect of the permitted or prescribed practice in its valuation), disclosure about those accounting practices that affect the insurance SCA’s net income and surplus shall be made pursuant to paragraph 36. If the reporting entity has adjusted the investment in the insurance SCA with the resulting valuation being consistent with the accounting principles of the AP&P Manual, the disclosures in paragraph 36 are not required.
underwriting, collection of premiums, payment of claims and benefits, policyowner services

(g) Acting as an insurance or administrative agent or an agent for a government instrumentality performing an insurance function (e.g. processing of state workers compensations plans, managing assigned risk plans, Medicaid processing etc).

(h) Purchase or securitization of acquisition costs

and if 20% or more of the SCA’s revenue is generated from the reporting entity and its affiliates, then the underlying equity of the respective entity’s audited U.S. Generally Accepted Accounting Principles (GAAP) financial statements shall be adjusted to a limited statutory basis of accounting in accordance with paragraphs 9 and 20FN. For purposes of this section, revenue means GAAP revenue reported in the audited U.S. GAAP financial statements excluding realized and unrealized capital gains/losses. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Paragraphs 232-287 provide guidance for investments in holding companies;

New Footnote – If the audited U.S. GAAP financial statements reflect the pushdown method of accounting, the financial statements must first be modified to eliminate the effects of the pushdown accounting before applying the statutory basis adjustments.

iii. Investments in both U.S. and foreign noninsurance SCA entities that do not qualify under paragraph 8.b.ii., shall be recorded based on the audited U.S. GAAP equity of the investee, adjusted in accordance with paragraph 20. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Additional guidance on investments in downstream holding companies is included in paragraphs 232-287. Additional guidance on the use of audited foreign GAAP basis financial statements for the U.S. GAAP equity valuation amount is included in paragraph 243.b.

iv. Investments in foreign insurance SCA entities shall be recorded based on the underlying U.S. GAAP equity from the audited U.S. GAAP basis financial statements, adjusted to a limited statutory basis of accounting in accordance with paragraphs 9 and 20, if available. If the audited U.S. GAAP basis financial statements are not available, the investment can be recorded on the audited foreign statutory basis financial statements of the respective entity adjusted to a limited statutory basis of accounting in accordance with paragraph 9 and adjusted for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from a U.S. insurer using the statutory accounting principles promulgated by the NAIC in the Accounting Practices and Procedures Manual. The audited foreign statutory basis financial statements must include an audited footnote that reconciles net income and equity on the foreign statutory basis of accounting to the U.S. GAAP basis. Foreign insurance SCA entities are defined as alien insurers formed according to the legal requirements of a foreign country.

**Pushdown Accounting**

20. Pushdown accounting is a convention of accounting for the purchase of a subsidiary at the purchase cost rather than its historical cost. Under pushdown accounting, the acquiree’s assets and liabilities are written up (or down) to reflect the purchase price and, to the extent that the purchase price exceeds fair value, to recognize the excess as goodwill. As such, the total amount that is paid to purchase
the subsidiary becomes the subsidiary’s new book value on its financial statements. Pushdown accounting is not permitted under statutory accounting, therefore all SCAs that utilize audited U.S. GAAP financial statements to determine the valuation method under this statement (SCAs valued in accordance with paragraphs 8.b.ii and 8.b.iii) that reflect pushdown accounting must be adjusted, in accordance with an audited reconciliation, to eliminate the effects of pushdown accounting. In addition to adjusting the equity basis of the SCA to eliminate pushdown accounting, the insurance reporting entity shall separately recognize goodwill, as appropriate based on the purchase price and net book value of the entity at acquisition (without pushdown accounting) and report the goodwill in accordance with the provisions of SSAP No. 68. Reporting entities that do not have audited support to eliminate the impact of pushdown accounting shall consider the SCA nonadmitted for statutory reporting purposes. Historical acquisitions of SCAs that have involved pushdown accounting shall continue admittance of the SCA with approval of the domiciliary commissioner. On a prospective basis for newly acquired SCAs, and for historical SCA acquisitions in which domiciliary commissioner approval is not received, reporting entities that do not have audited support to eliminate the impact of pushdown accounting shall report the SCA as a nonadmitted asset for statutory reporting purposes.

Valuation of Investments in Downstream Holding Companies

22. SSAP No. 48 requires the financial statements of joint ventures, partnerships, and/or limited liability companies in which the downstream noninsurance holding company has a minor ownership interest or otherwise lacks control, i.e., ownership interest is less than 10% (hereinafter referred to as “non SCA SSAP No. 48 entities”), to be valued using U.S. GAAP basis financial statements. Valuation of a downstream holding company, including its investments in SCA entities, depends upon the nature of the SCA entities and non SCA SSAP No. 48 entities it holds in accordance with paragraph 8 of this statement. All liabilities, commitments, contingencies, guarantees or obligations of the downstream noninsurance holding company, which are required to be recorded under applicable statutory accounting guidance, shall be reflected in the parent insurance reporting entity’s determination of the carrying value of the investment in the downstream noninsurance holding company, if not already recorded in the financial statements of the downstream noninsurance holding company. The historical basis of the acquired entity shall continue to be used in preparing its financial statements. If an SCA investment of the downstream holding company does not meet the provisions of paragraph 8.a. or if it elects not to use the guidance in paragraph 8.a., and instead uses the guidance in paragraph 8.b., the downstream holding company would be valued as the sum of the following (if applicable):

Admissibility Requirements of Investments in Downstream Holding Companies

23. To meet the admissibility requirements of this statement, unless the limited exception to the audited financial statements requirement discussed in paragraphs 26 and 27 applies, an annual audit of the financial statements of SCA entities, including the downstream holding company valued under paragraphs 8.b.i through 8.b.iv. must be obtained. The requirement for audited financial statements may be met by utilizing any one of the following methods:

a. Audited US GAAP financial statements of the downstream SCA holding company, where the historical basis of the SCA has been used to prepare its financial statements. (Consolidated or combined financial statements are allowed encompassing one or more downstream holding companies, including such holding companies that directly own U.S. insurance entities, provided that the statutory financial statements of such U.S. insurance entities are audited. Annual consolidated or combined audits are allowed for insurance entities if completed in accordance with the Model Regulation Requiring Annual Audited Reports as adopted by the SCA’s domiciliary state.) The audited financial statements of the downstream holding company shall include as other financial information, consolidating or combining balance sheet schedule(s) showing the equity of all relevant SCA entities and non-SCA SSAP No. 48 entities, and any required intercompany eliminations. The consolidating or combining balance sheet schedule shall separately present those entities owned directly by the downstream holding company. The consolidating or combining balance sheet shall then be adjusted for GAAP to SAP differences for paragraph 8.b.i.,
8.b.ii. and 8.b.iv. entities owned directly or indirectly by the downstream holding company. The adjusted amount would then be the reported value of the investment in the downstream holding company at the higher-level reporting entity; or

b. Audited foreign GAAP-basis financial statements of the downstream SCA holding company. (Consolidated or combined financial statements are allowed encompassing one or more downstream holding companies, including such holding companies that directly own U.S. insurance entities, provided that the statutory financial statements of such U.S. insurance entities are audited. Annual consolidated or combined audits are allowed for insurance entities if completed in accordance with the Model Regulation Requiring Annual Audited Reports as adopted by the SCA’s domiciliary state.) The audited foreign GAAP basis financial statements shall include an audited footnote disclosure within the financial statements that reconciles each consolidated entity’s net income and equity on a foreign basis of accounting to a U.S. GAAP basis. The audited financial statements of the downstream holding company shall include as other financial information, consolidating or combining balance sheet schedule(s) showing the equity of all relevant SCA entities non SCA SSAP No. 48 entities, and any required intercompany eliminations. The consolidating or combining balance sheet schedule shall separately present those entities owned directly by the downstream holding company. The consolidating or combining balance sheet shall then be adjusted for GAAP to SAP differences of the insurance entities and paragraph 8.b.ii., and 8.b.iv. entities owned directly or indirectly by the downstream holding company. The adjusted amount would then be the reported value of the investment in the downstream holding company at the higher-level reporting entity; or

c. Individual audits of the downstream holding company and the downstream holding company’s investments in individual SCA entities.


Status:
On April 6, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No 68—Business Combinations and Goodwill and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities to reject ASU 2014-17, Business Combinations – Pushdown Accounting for statutory accounting as well as explicitly prohibit the use of pushdown accounting under statutory accounting, which includes all entities accounted for under SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies and SSAP No. 97.

On August 3, 2019, the Statutory Accounting Principles (E) Working Group exposed this agenda item with a request for comments on the three options listed below. Additionally, to ensure that goodwill resulting from an insurance reporting entity’s acquisition of an SCA when pushdown is applied is captured within the goodwill admittance
The options for Working Group consideration include:

1) **Complete rejection of pushdown accounting.** As pushdown is now an election for SEC / U.S. GAAP filers, reporting entities can avoid use of pushdown if prohibited for statutory accounting. (NAIC staff would propose a prospective effective date if electing this option to avoid restatement of those entities that have previously elected pushdown.)

2) **Permission to use pushdown for all non-insurance entities.** This option would increase optionality into the statutory financial statements. If permitted, this approach would result in different SCA values and goodwill calculations for those that follow the guidance in SSAP No. 68 and those that utilize pushdown. Under SSAP No. 68, acquired SCAs do not write-up their assets or liabilities to fair value and goodwill is calculated as the difference between purchase price and book value. Under U.S. GAAP pushdown, acquired SCAs write-up their assets and liabilities to fair value, and goodwill is calculated as the difference between the purchase price and the fair value of the acquired entity. With pushdown, the goodwill is reported at the SCA level. As such, goodwill will be an indefinite asset unless it is identified as impaired. (Under U.S. GAAP, private entities and not-for-profit entities can elect to amortize goodwill over a 10-year period, but this is not an election for public entities.) **If this option is supported, NAIC staff would recommend that the goodwill admittance limitation capture goodwill from an insurance entity’s acquisition of an SCA that is reported on the SCA financial statements.** (This option would not permit pushdown for insurance SCAs (8.b.i entities).)

   (If this option is considered, NAIC staff would propose restrictions on the use of pushdown that differ from U.S. GAAP. For example, under U.S. GAAP, a reporting entity could subsequent elect pushdown accounting in any reporting period after original acquisition. If pushdown was permitted, NAIC staff would propose to require the election at original acquisition and not allow subsequent elections.)

3) **Permit pushdown if elected by SEC Registrants, excluding non-insurance entities.** Although this option would introduce different accounting by type of reporting entity, it is consistent with when pushdown would have been applied under prior statutory accounting guidance. (Under the old SEC provisions, pushdown was only permitted when meeting certain SEC requirements.) This would seemingly allow the companies that have historically utilized pushdown under the SEC rules to continue acquisitions under that prior approach. **If this option is supported, NAIC staff would recommend that the goodwill admittance limitation capture goodwill from the acquisition of an SCA that is reported on the SCA financial statements. (Also, NAIC staff would propose restrictions to the provisions to ensure the election is made at the time of original acquisition.)** (This option would not permit pushdown for insurance SCAs (8.b.i entities).)

Exposed Edits to SSAP No. 68—*Business Combinations and Goodwill:*

8. For those acquired SCA entities accounted for in accordance with paragraph 8.b.i. of SSAP No. 97 under the statutory purchase method, the historical bases of the acquired entity shall continue to be used in preparing its statutory financial statements. Therefore, pushdown accounting is not permitted.

9. Positive goodwill recorded under the statutory purchase method of accounting shall be admitted subject to the following limitation: Positive goodwill from all sources, including life, accident and health, and deposit-type assumption reinsurance and goodwill resulting from the acquisition of an SCA by the insurance reporting entity that is reported on the SCA’s financial statements (resulting from the application of
pushdown accounting), is limited in the aggregate to 10% of the acquiring entity’s capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted. When negative goodwill exists, it shall be recorded as a contra-asset. Positive or negative goodwill resulting from the purchase of an SCA, joint venture, partnership or limited liability company shall be amortized to unrealized capital gains and losses on investments over the period in which the acquiring entity benefits economically, not to exceed 10 years. Positive or negative goodwill resulting from life, accident and health, and deposit-type assumption reinsurance shall be amortized to operations as a component of general insurance expenses over the period in which the assuming entity benefits economically, not to exceed 10 years. Goodwill shall be evaluated separately for each transaction. INT 01-18

On December 7, 2019, the Statutory Accounting Principles (E) Working Group adopted, as final, a clarification edit to SSAP No. 68—Business Combinations and Goodwill to clarify that all goodwill from an insurance entity’s acquisition of SCAs, regardless of whether pushdown accounting is applied, is subject to the existing 10% admittance limitation. (With adoption of this edit, paragraph 9 was split into two separate paragraphs.) The remainder of this agenda item was re-exposed to allow additional time for specific examples of pushdown accounting to be provided by interested parties, as well as consider comments received on pushdown.

**Dec. 7 - Adopted SSAP No. 68 Revisions:**

9. Positive goodwill recorded under the statutory purchase method of accounting shall be admitted subject to the following limitation: Positive goodwill from all sources, including life, accident and health, and deposit-type assumption reinsurance and goodwill resulting from the acquisition of an SCA by the insurance reporting entity that is reported on the SCA’s financial statements (resulting from the application of pushdown accounting), is limited in the aggregate to 10% of the acquiring entity’s capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted. When negative goodwill exists, it shall be recorded as a contra-asset.

10. Positive or negative goodwill resulting from the purchase of an SCA, joint venture, partnership or limited liability company shall be amortized to unrealized capital gains and losses on investments over the period in which the acquiring entity benefits economically, not to exceed 10 years. Positive or negative goodwill resulting from life, accident and health, and deposit-type assumption reinsurance shall be amortized to operations as a component of general insurance expenses over the period in which the

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4 The “acquiring” entity is intended to reflect the insurance reporting entity that reports the investment resulting in goodwill. The goodwill limitation test shall be completed at the individual reporting company level.

5 This includes, but is not limited to, situations in which the investment is nonadmitted as the audited financial statements for the SCA, joint venture, partnership or limited liability company includes substantial doubt on the entity’s ability to continue as a going concern, or on the basis/contents of the audit opinion pursuant to paragraph 20 of SSAP No. 97.

6 The “acquiring” entity is intended to reflect the insurance reporting entity that reports the investment resulting in goodwill. The goodwill limitation test shall be completed at the individual reporting company level.

7 This includes, but is not limited to, situations in which the investment is nonadmitted as the audited financial statements for the SCA, joint venture, partnership or limited liability company includes substantial doubt on the entity’s ability to continue as a going concern, or on the basis/contents of the audit opinion pursuant to paragraph 20 of SSAP No. 97.
assuming entity benefits economically, not to exceed 10 years. Goodwill shall be evaluated separately for each transaction.\(\text{(INT 01-18)}\)

(Remaining paragraphs will be renumbered accordingly.)

Dec. 7 - Re-Exposure of the Agenda Item Requests Comments and Examples on the Following Options:

1) **Complete rejection of pushdown accounting.** As pushdown is now an election for SEC / U.S. GAAP filers, reporting entities can avoid use of pushdown if prohibited for statutory accounting. (NAIC staff would propose a prospective effective date if electing this option to avoid restatement of those entities that have previously elected pushdown.)

2) **Permission to use pushdown for all non-insurance entities.** This option would increase optionality into the statutory financial statements. If permitted, this approach would result in different SCA values and goodwill calculations for those that follow the guidance in SSAP No. 68 and those that utilize pushdown. Under SSAP No. 68, acquired SCAs do not write-up their assets or liabilities to fair value and goodwill is calculated as the difference between purchase price and book value. Under U.S. GAAP pushdown, acquired SCAs write-up their assets and liabilities to fair value, and goodwill is calculated as the difference between the purchase price and the fair value of the acquired entity. With pushdown, the goodwill is reported at the SCA level. As such, goodwill will be an indefinite asset unless it is identified as impaired. (Under U.S. GAAP, private entities and not-for-profit entities can elect to amortize goodwill over a 10-year period, but this is not an election for public entities.) (This option would not permit pushdown for insurance SCAs (8.b.i entities).

   (If this option is considered, NAIC staff would propose restrictions on the use of pushdown that differ from U.S. GAAP. For example, under U.S. GAAP, a reporting entity could subsequent elect pushdown accounting in any reporting period after original acquisition. If pushdown was permitted, NAIC staff would propose to require the election at original acquisition and not allow subsequent elections.)

3) **Permit pushdown if elected by SEC Registrants, excluding non-insurance entities.** Although this option would introduce different accounting by type of reporting entity, it is consistent with when pushdown would have been applied under prior statutory accounting guidance. (Under the old SEC provisions, pushdown was only permitted when meeting certain SEC requirements.) This would seemingly allow the companies that have historically utilized pushdown under the SEC rules to continue acquisitions under that prior approach. (\textit{Also, NAIC staff would propose restrictions to the provisions to ensure the election is made at the time of original acquisition.}) (This option would not permit pushdown for insurance SCAs (8.b.i entities).
The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call Oct. 22, 2019. The following Working Group members participated: Jake Garn, Chair (UT); Kim Hudson, Vice Chair (CA); Michael Estabrook (CT); N. Kevin Brown (DC); Adrienne Lupo (DE); Carolyn Morgan, Jason Reynolds and Robert Ridenour (FL); Daniel Mathis (IA); Roy Eft (IN); Dan Schaefer (MI); Debbie Doggett (MO); Lindsay Crawford (NE); Patricia Gosselin (NH); Amal Mechaiel (NJ); Dale Bruggeman and Tracy Snow (OH); Joel Sander (OK); Greg Lathrop (OR); Joe DiMemmo (PA); Hui Wattanaskolpant (TN); Shawn Frederick (TX); Steve Drutz and Patrick McNaughton (WA); Randy Milquet (WI); and Justin Parr (WV).

1. **Adopted its Sept. 5 and Aug. 20 Minutes**

The Working Group conducted an e-vote that concluded Sept. 5 to expose proposal 2019-24BWG, which requests the addition of a life experience data conduct to the electronic Jurat page for life/fraternal company filers only with an effective date for first quarter 2020. During its Aug. 20 meeting, the Working Group took the following action: 1) adopted its July 2 and June 24 minutes; 2) adopted items previously exposed; 3) discussed its procedures; 4) exposed three new items for public comment; and 5) adopted the editorial listing.

Mr. Hudson made a motion, seconded by Mr. Drutz, to adopt the Working Group’s Sept. 5 (Attachment Two-A) and Aug. 20 (Attachment Two-B) minutes. The motion passed unanimously.

2. **Adopted Items Previously Exposed**

   a. **For Note 33, Modify the Illustrations to Disclosure Individually Separate Account with Guarantees Products and Separate Account Nonguaranteed Products (2019-21BWG) Effective 12/31/2020**

Mr. Garn stated that this proposal breaks out the separate accounts disclosure and related illustration in Note 33 to show the Separate Account with Guarantees products and Separate Account Nonguaranteed products separately. He indicated that there were no interested party comments on this proposal.

Ms. Crawford made a motion, seconded by Mr. Drutz, to adopt the proposal (Attachment Two-C). The motion passed unanimously.

   b. **Add a Question Regarding the Executive Summary of the PBR Actuarial Opinion to the Supplemental Exhibits and Schedules Interrogatories (2019-22BWG) Effective 12/31/2020**

Jennifer Frasier (NAIC) stated that this proposal is sponsored by the Life Actuarial (A) Task Force, with an annual 2020 effective date. It adds a question to the Supplemental Exhibits and Schedules Interrogatories asking if the Executive Summary of the PBR Actuarial Report would be filed with the state of domicile by April 1.

Mr. Hudson made a motion, seconded by Ms. Gosselin, to adopt the proposal (Attachment Two-D). The motion passed unanimously.

   c. **Modify the Instructions and Illustration for Note 8 – Derivatives for Disclosures Adopted by SSAP No. 108, Add Instructions and a Blanks Page for Schedule DB, Part E, to the Quarterly Statement (2019-23BWG) Effective 1/1/2020**

Mr. Bruggeman stated that this proposal pertains to Statement of Statutory Accounting Principles (SSAP) No. 108—Derivatives Hedging Variable Annuity Guarantees. When the annual proposal was adopted in June with proposal 2019-14BWG, the quarterly disclosure was not included. At the Summer National Meeting, it was noted, and the interested parties agreed, that the intent of the Statutory Accounting Principles (E) Working Group change was to capture a quarterly disclosure as well. This agenda item, which was exposed in August, adds that quarterly 2020 disclosure. There was a minor column reference modification, which should be included as a friendly amendment.
Mr. Bruggeman made a motion, seconded by Ms. Gosselin, to adopt the proposal, including the column reference modification as a friendly amendment (Attachment Two-E). The motion passed unanimously.

d. **Add a Life Experience Data Contact to the Electronic Jurat Page for Life/Fraternal Companies Only. Health, Property and Title are Included in the Proposal Due to the Jurat Instructions Being Uniform for all Statement Types (2019-24BWG) Effective 1/1/2020**

Ms. Frasier stated that the purpose of this proposal is that under the *Standard Valuation Law* (#820) and supporting *Valuation Manual* included in each state’s laws, the NAIC serves as the data collection agent for various studies of data (e.g., mortality experience data). NAIC staff need a contact person from each legal entity life insurance company to facilitate communication regarding these data studies and submission of the data to the NAIC. This company contact should be filed in the electronic-only Jurat and will not be included on the hard copy/portable document format (PDF) Jurat. Interested parties had no comments other than the timing of the request.

Mr. Hudson made a motion, seconded by Mr. Milquet, to adopt the proposal (Attachment Two-F). The motion passed unanimously.

3. **Exposed its Procedures**

Mr. Garn stated that there are several pending issues with regards to the Blanks (E) Working Group procedures. He stated that there has been discussion with the software vendors regarding the changes within the Blanks (E) Working Group procedures document. He stated that during the discussions, for the most part, the vendor software representatives were in favor of the changes. John Bauer (Prudential Financial) stated that while interested parties are in favor of the need for the procedure changes, they would like additional time to review the time frames. He indicated that interested parties would prefer to hold one in-person meeting at one of the NAIC national meetings and to incorporate that language within the procedures document. Connie Woodroof (Sapiens) indicated that while she agrees with the proposed time frames, she wants to encourage state insurance regulators and interested parties to have proposals and comments in early. This way, the proposals should be able to be processed within the given time frames and not have so many last-minute issues. She encouraged everyone to follow related working group and task force projects to be informed of possible impacts to the blanks and instructions. These issues could then be discussed during a Blanks (E) Working Group meeting to get a head start on the issues where possible.

Ms. Caswell confirmed that approval had been obtained to allow the Blanks (E) Working Group time on the 2020 NAIC Spring National Meeting agenda. She also suggested a minor revision to the current edited version of the procedures. The “parent groups” should be defined to include groups above the Blanks (E) Working Group in the statutory hierarchy. This would include the Statutory Accounting Principles (E) Working Group. With the significant amount of changes from the previous exposure, Mr. Garn indicated that there should be another 30-day exposure period to receive comments.

Mr. Drutz made a motion, seconded by Mr. Lathrop, to expose the procedures for a public comment period ending Nov. 22. The motion passed unanimously.

4. **Exposed New Items**


Mr. Snow stated that this proposal modifies the instructions for column 10 in the Property Schedule F, Part 3, Ceded Reinsurance, and Schedule F Part 2 for the Workers’ Compensation Carve-out Supplement, Schedule F, Part 2 in the Life/Fraternal statement removing the “exclude” instructions for adjusting other reserves from that column. The proposal adds instructions to include the defense and cost containment reserves in column 10. It adds a new instruction for column 12 for each of those schedules for the “IBNR LAE Reserves” column to include defense and cost containment and adjusting and other expenses consistent with that reported in Schedule P, Part 1.

Mr. Hudson made a motion, seconded by Ms. Crawford, to expose the proposal for a public comment period ending Nov. 22. The motion passed unanimously.

Mr. Garn stated that this proposal adds instructions and crosschecks for line 34 on the Analysis of Operations by Lines of Business – Summary. It adds instructions for column 5, Indexed Life on the Analysis of Operations by Lines of Business for individual life. It adds clarifying instructions to the Analysis of Operations by Lines of Business for individual life and group life indicating that the reporting should be consistent with policy-type language in the contract and reporting of policies issued with secondary guarantees that have expired. He stated that this proposal is to be effective with the annual 2020 filing. There is a guidance document with this language being presented at this meeting, for posting to the NAIC web page to assist companies in reporting the annual 2019 filing.

Ms. Crawford made a motion, seconded by Ms. Gosselin, to expose the proposal for a public comment period ending Nov. 22. The motion passed unanimously.

c. Remove the Alphabetic Index from Inclusion at the Back of the Annual Statement Blank, Instructions and Blanks (E) Working Group Web page (2019-27BWG)

Mr. Hudson stated that this proposal requests the removal of the alphabetic index from inclusion at the back of the annual statement blank, instructions and the Blanks (E) Working Group web page. Most people now either use the bookmarks in the PDF, the search features in the PDFs, or the table of contents in the front of the blank. Therefore, the alphabetical index is no longer needed.

Mr. Hudson made a motion, seconded by Mr. Drutz, to expose the proposal for a public comment period ending Nov. 22. The motion passed unanimously.

5. Adopted the Editorial Listing

Mr. Hudson made a motion, seconded by Mr. Milquet, to adopt the editorial listing (Attachment Two-G). The motion passed unanimously.

6. Reviewed the State Filing Checklists

Mr. Garn asked the Working Group members and interested parties if there were any issues detected upon review of the State Filing Checklists. Receiving no comments, the members approved the checklists and directed NAIC staff to proceed with posting to the appropriate NAIC web page.

7. Approved Guidance

Mr. Garn asked the Working Group members and interested parties if there were any issues identified with the Analysis of Operations by Lines of Business 2019 instructional clarification guidance document. Receiving no comments, the members approved the guidance document for posting to the Blanks (E) Working Group web page.

8. Discussed Life/Fraternal Blank Statement Cover

Bill Tank (Tank Consulting) asked for clarification as to whether the brown cover would still be used for the fraternal companies filing on the life blank or if they would instead use the blue cover. Ms. Caswell indicated that if both colors cannot appear on the cover, the blue cover should be used by the licensed life filers, and the brown cover should still be used by the licensed fraternal filers that are using the life blank. The reason for retaining the color system is for situations where a state law or regulation might refer to a particular blank color in place of the statement title. The NAIC uses both colors on its blanks and instructions publications.

9. Discussed Other Matters
Mr. Garn asked the Working Group members and industry to be mindful of other groups’ work that might affect the annual or quarterly statement blank. As the members or interested parties become aware of potential impacts, those could be reviewed or discussed during future meetings. This could help members and industry prepare for expansive changes, participate in the process and allow more time for vetting of the issue.

Having no further business, the Blanks (E) Working Group adjourned.
The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force concluded an e-vote on Sept. 5, 2019. The following Working Group members participated: Jake Garn, Chair (UT); Kim Hudson, Vice Chair (CA); Jeffery Bethel (AK); William Arfanis (CT); N. Kevin Brown (DC); Dave Lonchar (DE); Daniel Mathis (IA); Roy Eft (IN); Dan Schaefer (MI); Debbie Doggett (MO); Lindsay Crawford (NE); Steve Kerner (NJ); Tracy Snow (OH); Joel Sander (OK); Ryan Keeling, (OR); Joe DiMemmo (PA); Trey Hancock (TN); Shawn Frederick (TX); Steve Drutz (WA); Jamie Taylor (WV); and Randy Milquet (WI).


The Working Group conducted an e-vote to consider exposure of proposal 2019-24BWG sponsored by Mike Boerner (TX) as Chair of the Life Actuarial (A) Task Force with an effective date of first quarter 2020. The proposal proposes the addition of a life experience data contact to the electronic Jurat page for life/fraternal company filers only. Health, Property and Title are included in the proposal due to the Jurat instructions being uniform for all statement types. Under the Standard Valuation Law (SVL) and supporting Valuation Manual (VM) included in each state’s laws, NAIC serves as the data collection agent for various studies of data (e.g., mortality experience data). The purpose of this proposal is to allow NAIC staff and regulators to more easily locate a contact person from each legal entity life insurance company to facilitate communication regarding these data studies and submission of the data to the NAIC.

Mr. DiMemmo made a motion, seconded by Mr. Eft, to expose proposal 2019-24BWG for a public comment period ending Oct. 8. The motion passed unanimously by two-thirds of the members present in accordance with the Working Group procedures.

Having no further business, the Blanks (E) Working Group adjourned.
The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call Aug. 20, 2019. The following Working Group members participated: Jake Garn, Chair (UT); Kim Hudson, Vice Chair, and Susan Bernard (CA); William Arfanis and Wanchin Chou (CT); N. Kevin Brown (DC); Rylynn Brown and Tom Hudson (DE); Virginia Christy and Carolyn Morgan (FL); Daniel Mathis (IA); Roy Eft (IN); Dan Schaefer (MI); Julie Lederer (MO); Lindsay Crawford and Justin Schrader (NE); Doug Bartlett and Patricia Gosselin (NH); John Sirovetz (NJ); Dale Bruggeman and Tracy Snow (OH); Joel Sander (OK); Greg Lathrop (OR); Joe DiMemmo (PA); Trey Hancock (TN); Mike Boerner and Shawn Frederick (TX); Steve Drutz (WA); Jerry DeArmond and Randy Milquet (WI); and Jamie Taylor (WV). Also participating were: Rich Piazza (LA); and Stacey Alden and Karen Ducharme (VT).

1. Adopted its July 2 and June 24 Minutes

The Working Group conducted an e-vote that concluded July 2 to expose proposal 2019-20BWG sponsored by the Executive (EX) Committee and Casualty Actuarial and Statistical (E) Task Force. The proposal requests changes to the Property and Casualty Actuarial Opinion that the Committee adopted on June 25. The Working Group also met June 24 to: 1) adopt 17 proposals exposed during the Spring National Meeting; expose two new proposals; and 3) adopt the editorial listing. The exposed proposals include requested disclosure changes or reporting clarifications sponsored by the Statutory Accounting Principles (E) Working Group; changes to the investment schedules reporting on behalf of the Valuation of Securities (E) Task Force; and reporting clarifications within the VM-20 Supplement and the life blank Analysis of Operations by Lines of Business.

Mr. Sirovetz made a motion, seconded by Ms. Gosselin, to adopt the Working Group’s July 2 and June 24 minutes (see NAIC Proceedings – Summer 2019, Accounting Practices and Procedures (E) Task Force, Attachment Two and Attachment Three). The motion passed unanimously.

2. Adopted Items Previously Exposed

a. Add an NAIC Designation Modifier to the NAIC Designation Column for Schedule D, DL and BA to Accommodate the NAIC Designation Category Granularity Framework Adopted by the Valuation of Securities (E) Task Force (2019-18BWG) Effective 12/31/2020

Mr. Garn stated that this proposal is sponsored by the Valuations of Securities (E) Task Force. It adds an NAIC designation modifier to the NAIC Designation Column for Schedule D, Schedule DL and Schedule BA to accommodate the NAIC designation category granularity framework. He stated that there have been several modifications to the proposal received during the comment period. One additional comment received was to change the effective date from first quarter 2020 to annual 2020. A contingency may be with regards to the elimination of the residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) price points to allow the Structured Securities Group (SSG) to produce the designation.

John Bauer (Prudential Financial) stated that interested parties agree with the change to the effective date to annual 2020. He stated that there is a lot of work for vendors in setting up their systems for these new designation modifiers. He stated that there is ongoing work for annual 2019 related to specific designations including the “YE” and “IF” and the removal of the preferred stock prefixes, as well as removal of the market indicators. He stated that interested parties will need to work with the Securities Valuation Office (SVO) staff to be sure that the specifications for the RMBS and CMBS price points are completed by mid-year 2020.

Mr. Hudson made a motion, seconded by Mr. Sirovetz, to adopt the modifications to the proposal, including the effective date of annual 2020. The motion passed unanimously. Mr. Hudson made a motion, seconded by Mr. Arfanis to adopt the modified proposal (Attachment Two-B1). The motion passed unanimously.

b. Add a New Category Line for Unaffiliated Certificates of Deposit to Schedules D, DL and E. Add a Line to the Summary Investment Schedule for Unaffiliated Certificates of Deposit. Modify the List of Bonds for Lines 8 Through
Mary Caswell (NAIC) stated that this proposed change requested by NAIC staff was intended to eliminate validation failures as it relates to unaffiliated certificates of deposit. The proposal adds a new line category for the unaffiliated certificates of deposit to the investment schedules, as well as to the Summary Investment Schedule. The proposal modifies the list of bonds for the respective lines of the Summary by Country to include unaffiliated certificates of deposit. She stated that this additional breakout would help state insurance regulators better identify the unaffiliated certificates of deposit. She stated that instructions would also need to be added to zero fill the Committee on Uniform Security Identification Procedures (CUSIP) and Identification Securities Identification Numbers (ISIN) columns for unaffiliated certificates of deposit.

Mr. Garn stated that based on comments received from interested parties, the Working Group may want to consider the withdrawal of this proposal and a resubmission of a more expansive proposal to include the bigger issue of line number changes. Mr. Bauer stated that this change would require extensive revisions to create the separate recording for unaffiliated certificates of deposit. He stated that interested parties are not sure that there are a lot of these holdings to justify the breakout. He suggested adding a new code to the code column to identify these investments. Mr. Garn stated that the expansion of the line numbering will need to be addressed in the future, similar to the changes for the Schedule DBs, to accommodate the growing number of securities.

Mr. Hudson stated that he is supportive of the withdrawal to give interested parties and NAIC staff additional time to address this issue as, well as the line numbering issue, and resubmit as a new proposal.

Mr. Hudson made a motion, seconded by Mr. Milquet to withdraw the proposal. The motion passed unanimously.

c. Add “Qualification Documentation” to Require the Appointed Actuary to Maintain Workpapers Explaining How the Actuary Meets the Definition of a “Qualified Actuary.” Add a New Objective Definition of “Qualified Actuary” and the Results of an Assessment of Actuarial Educational Syllabi in an “NAIC-Accepted Actuarial Designation” Section (2019-20BWG) Effective 12/31/2019

Mr. Piazza stated that he has served as chair of the Casualty Actuarial and Statistical (C) Task Force for the past seven years and as the vice chair for three years. The role of the appointed actuary is one of the most important roles actuaries serve, in the eyes of state insurance regulators. State insurance regulators review reserve accuracy and company solvency to protect the interest of their states’ consumers and rely heavily on the information contained in the Actuarial Opinion. He stated that this proposal is intended to change the Property and Casualty Actuarial Opinion instructions specifically in the qualification area to include the Society of Actuaries (SOA) general insurance track, as well as the Casualty Actuarial Society (CAS) designations as being qualified for the role of appointed actuary.

Mr. Piazza stated that this proposal has a long history, starting more than seven years ago with the Casualty Actuarial and Statistical (C) Task Force. The Task Force has worked non-stop on the underlying project to include the SOA designation, as well as CAS, since 2012/2013. In the last two years, the Executive (EX) Committee has taken a role in reviewing this proposal. The Task Force was asked to evaluate the SOA educational track to determine if it is acceptable by state insurance regulators for the appointed actuaries, just like the American Academy of Actuaries (Academy) membership is acceptable. Both organizations (SOA and CAS) have been educating, testing and credentialing actuaries for decades, if not a century each. Mr. Piazza stated that both are good at what they do for the education of the actuary profession. When the Task Force was asked if the SOA met the minimum requirements, there was some reluctance from the actuarial organizations to take a direct role in this project. The Academy was asked and refused to take on this project. It did say it would cooperate in changing its qualification requirements to comply with any revised instructions inserted into the NAIC Property and Casualty Actuarial Opinion instructions. The Executive (EX) Committee asked the Task Force to look at this issue and decide whether the SOA should be included in the acceptable designation.

Mr. Piazza stated that the Casualty Actuarial and Statistical (C) Task Force was divided in how to approach this charge. There were at least three different options: 1) do nothing; 2) reevaluate the situation in five or more years; and 3) accept the SOA general insurance definition. He stated that the Task Force sought help to review this and approached the Property and Casualty Insurance (C) Committee, which agreed with getting an independent company to help pursue this review in an independent, unbiased manner. The Executive (EX) Committee funded a project to obtain an independent consultant to create an objective way to evaluate the new actuarial tract—the SOA education track. This was intended to be used by state insurance regulators.
in the development of an objective and principle-based definition of a qualified actuary. He stated that the proposal is a result of that work.

Mr. Piazza stated that there were more than 30 subject matter experts (SMEs) involved in the project, nominated by the three major actuarial organizations, to provide information to the consultants and work with them throughout the entire process. The consultant group conducted a job analysis and performed analysis of the examination syllabi of the actual organization. It did a comparison of the knowledge and educational materials for the actuary to see if it was in the syllabi of the other actuarial originations. This proposal defines the qualified actuary for both the SOA and the CAS and establishes basic educational requirements for the appointed actuary to be qualified per the instructions. The instructions have been vetted many times since the start of this project, and in the last 18 months, there were four separate exposures and one hearing on this issue. The proposal was discussed by the state insurance department commissioners at various levels in the last 18 months. Mr. Piazza stated that this was a large, multi-faceted and open effort to get to this proposal. This proposal follows the charge given to the Casualty Actuarial and Statistical (C) Task Force to define the qualified actuary objectively and to include the SOA if he or she met basic education expectations of the NAIC.

Mr. Garn stated that based on the passed precedents of the Blanks (E) Working Group, it does not appear as though this is the appropriate level to decide policy issues. When the Working Group has received proposals from the Statutory Accounting Principles (E) Working Group, the Valuation of Securities (E) Task Force, the Capital Adequacy (E) Task Force or similar groups, the Working Group will defer on the policy matter that has already been vetted to the groups presenting the proposal. He stated that he would be uncomfortable making any substantive changes to the language in the proposal. He recommended that for those who feel there is still some needed policy language change, that should be taken up with the policy-making group as a new requirement. He stated that any outstanding policy issue could also be taken up by the Accounting Practices and Procedures (E) Task Force or the Financial Condition (E) Committee as the proposal moves through the process.

Ralph Blanchard (Travelers) stated that the Casualty Actuarial and Statistical (C) Task Force was in agreement that the “exception” language within the instructions should revert back to the old language where the exception was available to a member of the Academy only, rather than to any person submitting a request to the Academy. Mr. Blanchard stated that he is a dues-paying member of the Academy and has seen court cases in the past where people sue the Academy. In these cases, frequently one of the actual protections for the professional organizations is whether the person suing is a member of the organization or not. By being a voluntary member of that organization, the member will have to agree to some of the criteria and rules of that organization. As it is currently stated, the actuary could apply through the Academy as a non-member, in which case, if the Academy refuses to hear or evaluate him or her, the Academy could be sued for anti-trust. If the actuary is a member, the Academy would have that protection. He stated that it does not make sense to remove the Academy membership in the wording.

Craig Hanna (Academy) stated that the Academy would not consider any application from a non-member. He stated that reverting the language back to what Mr. Blanchard suggested would be appropriate. Mr. Chou stated that since 2012, the Blanks (E) Working Group has been trying to merge the SOA and CAS, which has caused a lot of the dispute even up to 2019. One of the issues is the Academy membership and how that is treated in the life and health blanks.

Connie Woodroof (Sapiens) stated that there is an electronic data capture element to be added within this proposal that has an effective date of annual 2019, and vendor testing begins in September.

Mr. Garn stated that the Blanks (E) Working Group is not the appropriate entity to make policy decision changes. Mr. Chou stated that he would recommend the motion be withdrawn until there is further discussion. Mr. Frederick seconded the motion. Kay Noonan (NAIC) questioned whether a motion to withdraw would substitute for the original motion. The motion to adopt was considered first to account for any opposition to warrant consideration of a withdrawal motion. Ms. Noonan stated that the Academy membership issue does not affect the overall proposal. She suggested considering the proposal for adoption to include the SOA and taking the Academy membership issue back up with the Casualty Actuarial and Statistical (C) Task Force as a separate issue.

Mr. Piazza stated that the Casualty Actuarial and Statistical (C) Task Force reviews the instructions every year for any needed changes. He stated that the Task Force can review and amend Academy membership issues in the future if so desired. He stated that the framework being discussed with this proposal to add the SOA is recognized as being qualified, well done and objective principles-based and should be adopted as written. Mr. Garn stated that a “no” vote on the primary motion would effectively be a vote to withdraw. Therefore, he called for a vote on the primary motion.
Ann Weber (SOA) stated that there has been a lot of work performed by the 30 volunteers, the Casualty Actuarial and Statistical (C) Task Force, the state insurance department commissioner oversite group, the Executive (EX) Committee, and the Property and Casualty Insurance (C) Committee. She stated that this has been a long and arduous process. There is a subjective, analytical process to review the knowledge basis and educational programs of the CAS and SOA, which has been approved by the Executive (EX) Committee.

Mr. Hudson made a motion, seconded by Mr. Sander, to adopt the proposal *(see NAIC Proceedings – Fall 2019, Accounting Practices and Procedures (E) Task Force, Attachment Three-A)*. The motion passed by roll call vote, with Connecticut, Missouri, Nebraska and Texas opposed and Ohio abstaining.

3. **Discussed the Blanks (E) Working Group Procedures**

Mr. Garn stated the there are several pending issues with regards to the Blanks (E) Working Group procedures. He suggested that this issue be deferred to create additional time to address those issue and then discuss the changes during the next Working Group conference call.

Mr. Hudson made a motion, seconded by Mr. Drutz, to defer discussion on the procedures. The motion passed unanimously.

4. **Exposed New Items for Public Comment**

   a. **For Note 33, Modify the Illustration to Disclosure Individually Separate Account with Guarantees Products and Separate Account Nonguaranteed Products (2019-21BWG)**

   Mr. Schrader stated that this proposal is a data-capture item for Note 33 to modify the illustration to disclosure individually the Separate Account with Guarantees products and Separate Account Nonguaranteed products.

   Mr. Hudson made a motion, seconded by Mr. Sirovetz, to expose the proposal for a 45-day public comment period ending Oct. 8. The motion passed unanimously.

   b. **Add a Question Regarding the Executive Summary of the PBR Actuarial Opinion to the Supplemental Exhibits and Schedules Interrogatories (2019-22BWG)**

   Jennifer Frasier (NAIC) stated that this is a proposal sponsored by the Life Actuarial (A) Task Force to add a question regarding the Executive Summary of the PBR Actuarial Opinion to the Supplemental Exhibits and Schedules Interrogatories.

   Mr. Arfanis made a motion, seconded by Mr. Eft, to expose the proposal for a 45-day public comment period ending Oct. 8. The motion passed unanimously.

   c. **Modify the Instructions and Illustration for Note 8 – Derivatives for Disclosures Adopted by SSAP No. 108, Add Instruction and Blank Page for Schedule DB, Part E, to the Quarterly Statement (2019-23BWG)**

   Mr. Bruggeman stated that this proposal pertains to Statement of Statutory Accounting Principles (SSAP) No. 108—Derivative Hedging Variable Annuity Guarantees. He stated that when the annual proposal was adopted in June with proposal 2019-14BWG, the quarterly disclosure was not included. He stated that interested parties agreed that the intent of the Statutory Accounting Principles (E) Working Group change was to capture a quarterly disclosure as well. This agenda item adds that quarterly 2020 disclosure.

   Mr. Bruggeman made a motion, seconded by Ms. Gosselin, to expose the proposal for a 45-day public comment period ending Oct. 8. The motion passed unanimously.

5. **Adopted the Editorial Listing**

Mr. Hudson made a motion, seconded by Mr. Sirovetz, to adopt the editorial listing (Attachment Two-B2). The motion passed unanimously.

Having no further business, the Blanks (E) Working Group adjourned.
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 05/20/2019

CONTACT PERSON: Charles Therriault

TELEPHONE: 212 386-1920

EMAIL ADDRESS: CTheriault@naic.org

ON BEHALF OF:

NAME: Kevin Fry

TITLE: Chair, VOS Task Force

AFFILIATION:

ADDRESS:

FOR NAIC USE ONLY

Agenda Item # 2019-18BWG MOD

Year 2020

Changes to Existing Reporting [ X ]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING
PRACTICES AND PROCEDURES IMPACT

No Impact [ X ]
Modifies Required Disclosure [ ]

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[ X ] Adopted Date 08/20/2019
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[ X ] ANNUAL STATEMENT
[ X ] QUARTERLY STATEMENT
[ X ] Life, Accident & Health/Fraternal
[ X ] Property/Casualty
[ X ] Health

[ X ] INSTRUCTIONS
[ X ] SEPARATE ACCOUNTS
[ X ] PROTECTED CELL
[ X ] Health (Life Supplement)

[ ] CROSSCHECKS

[ X ] Title
[ ] Other

Anticipated Effective Date: 1st Quarter Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

See next page for details of changes.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

See next page for details of changes.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:__________________________________________

Other Comments:

This proposal assumes the adoption of 2019-03BWG adding NAIC Designation Column to Schedule D, Part 2, Section 2. It does not assume adoption of 2019-04BWG as a result some of the language for Schedule BA will need to be adjusted to reflect those changes if adopted.

** This section must be completed on all forms.

Revised 7/18/2018

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REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The Valuation of Securities (E) Task Force (“VOS TF”) adopted on June 11, 2018 a more granular NAIC Designation Category framework. The new NAIC Designation Category applies wherever an NAIC Designation is reported and produced by the SVO, independently or based on CRP credit ratings for filing exempt and PL securities as well as those assigned to RMBS and CMBS based on financial modelling by the SSG. Upon the determination of an NAIC Designation, the SVO or SSG will produce NAIC Designation Categories which are a subset of each NAIC Designation.

**NAIC Designation Category** means and refers to 20 more granular delineations of credit risk in the NAIC 1 through NAIC 6 credit risk scale used by the VOS/TF to relate credit risk in insurer owned securities. This granular level of credit risk can be used by the NAIC Capital Adequacy (E) Task Force to assign granular risk-based capital factors when they are adopted. In the meantime, this additional level of credit risk provides NAIC members additional insight into the risk of insurer investments. Each delineation of credit risk is represented by a letter, an **NAIC Designation Modifier**, which modifies the **NAIC Designation** grade to indicate a more granular measure of credit risk within the NAIC Designation grade. The more granular delineations of credit risk are called an **NAIC Designation Category**, a combination of the NAIC Designation and NAIC Designation Modifier, and are distributed as follows: 7 for the **NAIC 1** Designation grade indicated by the letters A through G; 3 delineations each for each of the NAIC Designation grades **NAIC 2**, **NAIC 3**, **NAIC 4**, and **NAIC 5** indicated by the letters A, B and C and 1 delineation for **NAIC 6** with no **NAIC Designation Modifier**. All **NAIC Designation** Modifiers roll up into the respective **NAIC Designation** grade as they are a subset of them.

IDENTIFICATION OF ITEM(S) TO CHANGE

2020 Quarterly Statement:

Instructions:

Schedule D, Part 3  
Add reference to NAIC Designation Modifier in Description of Column 10
Add instruction for NAIC Designation Modifier for the column
Add clarification indicating that the column will be three sub-columns in data table
Provide list of valid NAIC Designation and NAIC Designation Modifier Combinations.

Schedule D, Part 4  
Add reference to NAIC Designation Modifier in Description of Column 22
Add instruction for NAIC Designation Modifier for the column
Add clarification indicating that the column will be three sub-columns in data table
Provide list of valid NAIC Designation and NAIC Designation Modifier Combinations.

Schedule DL, Part 1  
Add reference to NAIC Designation Modifier in Description of Column 4
Add reference as to where to find instructions for determining NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol for Schedule DA, Part 1 and Schedule E, Part 2 investments
Add clarification column will be three sub-columns in data table

Schedule DL, Part 2  
Add reference to NAIC Designation Modifier in Description of Column 4
Add reference as to where to find instructions for determining NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol for Schedule DA, Part 1 and Schedule E, Part 2 investments
Add clarification indicating that the column will be three sub-columns in data table
<table>
<thead>
<tr>
<th>Schedule BA, Part 2</th>
<th>Add reference to NAIC Designation Modifier in Description of Column 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Add instruction for NAIC Designation Modifier for the column</td>
</tr>
<tr>
<td></td>
<td>Add clarification indicating that the column will be three sub-columns in data table</td>
</tr>
<tr>
<td></td>
<td>Provide list of valid NAIC Designation and NAIC Designation Modifier Combinations.</td>
</tr>
</tbody>
</table>

**Blank:**

<table>
<thead>
<tr>
<th>Schedule D, Part 3</th>
<th>Add reference to NAIC Designation Modifier in Description of Column 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule D, Part 4</td>
<td>Add reference to NAIC Designation Modifier in Description of Column 22</td>
</tr>
<tr>
<td>Schedule DL, Part 1</td>
<td>Add reference to NAIC Designation Modifier in Description of Column 4</td>
</tr>
<tr>
<td>Schedule DL, Part 2</td>
<td>Add reference to NAIC Designation Modifier in Description of Column 4</td>
</tr>
<tr>
<td>Schedule BA, Part 2</td>
<td>Add reference to NAIC Designation Modifier in Description of Column 6</td>
</tr>
</tbody>
</table>

**2020 Annual Statement:**

**Instructions:**

<table>
<thead>
<tr>
<th>Schedule D, Part 1</th>
<th>Add reference to NAIC Designation Modifier in Description of Column 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Add instruction for NAIC Designation Modifier for the column</td>
</tr>
<tr>
<td></td>
<td>Add clarification indicating that the column will be three sub-columns in data table</td>
</tr>
<tr>
<td></td>
<td>Provide list of valid NAIC Designation and NAIC Designation Modifier Combinations.</td>
</tr>
<tr>
<td></td>
<td>Add instruction for the NAIC Designation Category footnote.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Schedule D, Part 2, Section 1</th>
<th>Add reference to NAIC Designation Modifier in Description of Column 20</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Add instruction for NAIC Designation Modifier for the column</td>
</tr>
<tr>
<td></td>
<td>Add clarification indicating that the column will be three sub-columns in data table</td>
</tr>
<tr>
<td></td>
<td>Provide list of valid NAIC Designation and NAIC Designation Modifier Combinations.</td>
</tr>
<tr>
<td></td>
<td>Add instruction for the NAIC Designation Category footnote.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Schedule D, Part 2, Section 2</th>
<th>Add reference to NAIC Designation Modifier in Description of Column 18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Add instruction for NAIC Designation Modifier for the column</td>
</tr>
<tr>
<td></td>
<td>Add clarification indicating that the column will be three sub-columns in data table</td>
</tr>
<tr>
<td></td>
<td>Provide list of valid NAIC Designation and NAIC Designation Modifier Combinations.</td>
</tr>
<tr>
<td></td>
<td>Add instruction for the NAIC Designation Category footnote.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Schedule DL, Part 1</th>
<th>Add reference to NAIC Designation Modifier in Description of Column 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add reference as to where to find instructions for determining NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol for Schedule DA, Part 1 and Schedule E, Part 2 investments</td>
<td></td>
</tr>
<tr>
<td>Add clarification indicating that the column will be three sub-columns in data table</td>
<td></td>
</tr>
</tbody>
</table>
Schedule DL, Part 2
Add reference to NAIC Designation Modifier in Description of Column 4
Add reference as to where to find instructions for determining NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol for Schedule DA, Part 1 and Schedule E, Part 2 investments
Add clarification indicating that the column will be three sub-columns in data table

Schedule E, Part 2
Add electronic only Column 11 for Designation Category
Add instruction for NAIC Designation Equivalent for the column
Add instruction for NAIC Designation Modifier Equivalent for the column
Add clarification indicating that the column will be two sub-columns in data table
Provide list of valid NAIC Designation Equivalent and NAIC Designation Modifier Equivalent Combinations.
Add instruction for the NAIC Designation Category footnote.

Schedule DA, Part 1
Add electronic only Column 22 for Designation Category
Add instruction for NAIC Designation Equivalent for the column
Add instruction for NAIC Designation Modifier Equivalent for the column
Add clarification indicating that the column will be two sub-columns in data table
Provide list of valid NAIC Designation Equivalent and NAIC Designation Modifier Equivalent Combinations.
Add instruction for the NAIC Designation Category footnote.

Schedule BA, Part 2
Add reference to NAIC Designation Modifier in Description of Column 7
Add instruction for NAIC Designation Modifier for the column
Add clarification indicating that the column will be three sub-columns in data table
Provide list of valid NAIC Designation and NAIC Designation Modifier Combinations.
Add instruction for the NAIC Designation Category footnote.

Blank:

Schedule D, Part 1
Add reference to NAIC Designation Modifier in Description of Column 6
Add footnote to capture subtotal of B/ACV by NAIC Designation Category

Schedule D, Part 2, Section 1
Add reference to NAIC Designation Modifier in Description of Column 20
Add footnote to capture subtotal of B/ACV by NAIC Designation Category

Schedule D, Part 2, Section 2
Add reference to NAIC Designation Modifier in Description of Column 18
Add footnote to capture subtotal of B/ACV by NAIC Designation Category

Schedule DL, Part 1
Add reference to NAIC Designation Modifier in Description of Column 4
Add footnote to capture subtotal of B/ACV by NAIC Designation Category
<table>
<thead>
<tr>
<th>Schedule DL, Part 2</th>
<th>Add reference to NAIC Designation Modifier in Description of Column 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule BA, Part 2</td>
<td>Add reference to NAIC Designation Modifier in Description of Column 7</td>
</tr>
<tr>
<td></td>
<td>Add footnote to capture subtotal of B/ACV by NAIC Designation Category</td>
</tr>
<tr>
<td>Schedule DA, Part 1</td>
<td>Add footnote to capture subtotal of B/ACV by NAIC Designation Category</td>
</tr>
<tr>
<td>Schedule E, Part 2</td>
<td>Add footnote to capture subtotal of B/ACV by NAIC Designation Category</td>
</tr>
</tbody>
</table>
**QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE**

**SCHEDULE D – PART 3**

**LONG-TERM BONDS AND STOCKS ACQUIRED DURING THE CURRENT QUARTER**

**Detail Eliminated to Conserve Space**

Column 10 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

Provide the appropriate combination of NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol (see below) at the end of the quarter for each security shown. The list of valid SVO Administrative Symbols is shown below.

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC’s website for the Securities Valuation Office (www.naic.org/svo.htm).

For Bond Mutual Funds – as Identified by the SVO, enter 1.

Exchange Traded Funds – as Identified by the SVO should be reported as perpetual securities.

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- NAIC Designation Column 10A
- NAIC Designation Modifier Column 10B
- SVO Administrative Symbol Column 10C

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).

**NAIC Designation Modifier:**

The NAIC Designation Modifier should only be used for securities reported on the lines below eligible to receive one, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), otherwise, the field should be left blank.

- Bonds Lines 0199999 through 658299999
- Preferred Stocks Line 8499999 and 8599999
- Common Stocks Line 9499999

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments using reporting an NAIC Designation 6, therefore and the NAIC Designation Modifier field should be left blank.

Refer to the P&P Manual for the application of these modifiers.
SVO Administrative Symbol:

Long Term Bond:

Following are valid SVO Administrative Symbols for bonds. Refer to the P&P Manual for the application of these symbols.

- **S**: Additional or other non-payment risk
- **FE**: Filing Exempt
- **FM**: Financially Modeled RMBS/CMBS subject to SSAP 43R
- **AM**: Analytically Modeled subject to SSAP 43R
- **YE**: Year-end carry over
- **IF**: Initial filing
- **PL**: Private Letter Rating
- **PLGI**: Private Letter Rating – General Interrogatory
- **Z**: Insurer self-designated
- **GI**: General Interrogatory
- **F**: Sub-paragraph D Company – insurer self-designated
- *****: Limited to NAIC Designations 6

Preferred Stock:

Following are valid SVO Administrative Symbols for preferred stock. Refer to the P&P Manual for the application of these symbols.

- **S**: Additional or other non-payment risk
- **FE**: Filing Exempt
- **YE**: Year-end carry over
- **IF**: Initial filing
- **PL**: Private Letter Rating
- **PLGI**: Private Letter Rating – General Interrogatory
- **Z**: Insurer self-designated
- **GI**: General Interrogatory
- **F**: Sub-paragraph D Company – insurer self-designated
- *****: Limited to NAIC Designations 6

Common Stock:

For securities reported on Line 9499999 (Mutual Funds) provide the appropriate NAIC Designation (1 through 6) and NAIC Modifier as assigned by the Securities Valuation Office. For all other common stock the NAIC designation, NAIC Modifier and SVO Administrative Symbol field should be left blank.

Following are valid SVO Administrative Symbols for common stock. Refer to the P&P Manual for the application of these symbols.

- **YE**: Year-end carry over

For common stock the NAIC Designation and Administrative Symbol field should be zero-filled.
The NAIC Designation Category is the combination of NAIC Designation and NAIC Designation Modifier. Valid combinations of NAIC Designation and NAIC Designation Modifier for NAIC Designation Category are shown below:

<table>
<thead>
<tr>
<th>NAIC Designation</th>
<th>NAIC Designation Modifier</th>
<th>NAIC Designation Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>1A</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>1B</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>1C</td>
</tr>
<tr>
<td></td>
<td>D</td>
<td>1D</td>
</tr>
<tr>
<td></td>
<td>E</td>
<td>1E</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>1F</td>
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<tr>
<td></td>
<td>G</td>
<td>1G</td>
</tr>
<tr>
<td>2</td>
<td>A</td>
<td>2A</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>2B</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>2C</td>
</tr>
<tr>
<td>3</td>
<td>A</td>
<td>3A</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>3B</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>3C</td>
</tr>
<tr>
<td>4</td>
<td>A</td>
<td>4A</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>4B</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>4C</td>
</tr>
<tr>
<td>5</td>
<td>A</td>
<td>5A</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>5B</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>5C</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>6</td>
</tr>
</tbody>
</table>
Column 22 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

Provide the appropriate combination of the NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol (see below) at date of disposal for each security shown. The list of valid SVO Administrative Symbols is shown below.

Where multiple disposal transactions occurred for the same CUSIP, and those transactions are summarized on one line, enter the appropriate combination of NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol for the last disposal using the last available designation.

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC’s website for the Securities Valuation Office (www.naic.org/svo.htm).

For Bond Mutual Funds – as Identified by the SVO, enter 1.

Exchange Traded Funds – as Identified by the SVO should be reported as perpetual securities.

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed but will be three sub-columns in the data table:

- NAIC Designation Column 22A
- NAIC Designation Modifier Column 22B
- SVO Administrative Symbol Column 22C

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).

NAIC Designation Modifier:

The NAIC Designation Modifier should only be used for securities reported on the lines below if eligible to receive one, as defined in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), otherwise, the field should be left blank.

- Bonds Lines 0199999 through 65829999
- Preferred Stocks Line 8499999 and 8599999
- Common Stocks Line 9499999

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments using reporting an NAIC Designation 6, therefore, the NAIC Designation Modifier field should be left blank.

Refer to the P&P Manual for the application of these modifiers.
SVO Administrative Symbol:

Long Term Bond:

Following are valid SVO Administrative Symbols for bonds. Refer to the P&P Manual of the NAIC Investment Analysis Office for the application of these symbols.

- S: Additional or other non-payment risk
- FE: Filing Exempt
- FM: Financially Modeled RMBS/CMBS subject to SSAP 43R
- AM: Analytically Modeled subject to SSAP 43R
- YE: Year-end carry over
- IF: Initial filing
- PL: Private Letter Rating
- PLGI: Private Letter Rating – General Interrogatory
- Z: Insurer self-designated
- GI: General Interrogatory
- F: Sub-paragraph D Company – insurer self-designated
- *: Limited to NAIC Designations 6

Preferred Stock:

Following are valid SVO Administrative Symbols for preferred stock. Refer to the P&P Manual for the application of these symbols.

- S: Additional or other non-payment risk
- FE: Filing Exempt
- YE: Year-end carry over
- IF: Initial filing
- PL: Private Letter Rating
- PLGI: Private Letter Rating – General Interrogatory
- Z: Insurer self-designated
- GI: General Interrogatory
- F: Sub-paragraph D Company – insurer self-designated
- *: Limited to NAIC Designations 6

Common Stock:

- YE: Year-end carry over

For common stock, the NAIC Designation and Administrative symbol field should be zero-filled.
The NAIC Designation Category is the combination of NAIC Designation and NAIC Designation Modifier. Valid combinations of NAIC Designation and NAIC Designation Modifier for NAIC Designation Category are shown below:

<table>
<thead>
<tr>
<th>NAIC Designation</th>
<th>NAIC Designation Modifier</th>
<th>NAIC Designation Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>1A</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>1B</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>1C</td>
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<td>1D</td>
</tr>
<tr>
<td></td>
<td>E</td>
<td>1E</td>
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<tr>
<td></td>
<td>F</td>
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<td></td>
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</tr>
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<td>4</td>
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</tr>
<tr>
<td></td>
<td>B</td>
<td>4B</td>
</tr>
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<td></td>
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<td></td>
<td>B</td>
<td>5B</td>
</tr>
<tr>
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<td>C</td>
<td>5C</td>
</tr>
<tr>
<td>6</td>
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<td></td>
</tr>
</tbody>
</table>

Detail Eliminated to Conserve Space
### SCHEDULE DL – PART 1

**SECURITIES LENDING COLLATERAL ASSETS**

Reinvested Collateral Assets Owned Current Statement Date  
(Securities lending collateral assets reported in aggregate on Line 10 of the asset page and not included on Schedules A, B, BA, D, DB and E.)

**Detail Eliminated to Conserve Space**

<table>
<thead>
<tr>
<th>Column 4</th>
<th>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</th>
</tr>
</thead>
</table>

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol reported for this column should be determined in a manner consistent with the instructions of other schedules for the lines shown below:

- Lines 0199999 through 7099999: Schedule D, Part 1, Column 6
- Lines 7199999 through 7399999: Schedule D, Part 2, Section 1, Column 20
- Lines 7499999 through 7999999: Schedule D, Part 2, Section 2, Column 17
- Line 8899999: Schedule BA, Part 1, Column 7
- Line 8999999: Schedule DA, Part 1, Column 22
- Line 909199999: Schedule E, Part 2, Column 11

For Lines 8699999, 8799999, 8999999, 9099999, 9199999, and 9299999, the column should be left blank.

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table:

- **NAIC Designation** Column 4A
- **NAIC Designation Modifier** Column 4B
- **SVO Administrative Symbol** Column 4C

On the printed page, the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).
SCHEDULE DL – PART 2

SECURITIES LENDING COLLATERAL ASSETS
Reinvested Collateral Assets Owned Current Statement Date
(Securities lending collateral assets included on Schedules A, B, BA, D, DB and E
and not reported in aggregate on Line 10 of the asset page.)

Detail Eliminated to Conserve Space

Column 4 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol reported for this column should be same for the security as reported in other schedules for the lines shown below:

- Lines 0199999 through 7099999 .......... Schedule D, Part 1, Column 6
- Lines 7199999 through 7399999 .......... Schedule D, Part 2, Section 1, Column 20
- Lines 7499999 through 7999999 .......... Schedule D, Part 2, Section 2, Column 17
- Line 8899999 .......................... Schedule BA, Part 1, Column 7
- Line 8899999 .......................... Schedule BA, Part 1, Column 7
- Line 8999999 .......................... Schedule DA, Part 1, Column 22
- Line 909199999 ........................ Schedule E, Part 2, Column 11

For Lines 8699999, 8799999, 8999999, 9099999, 9199999 and 9299999, the column should be left blank.

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- NAIC Designation .......................... Column 4A
- NAIC Designation Modifier ............... Column 4B
- Administrative Symbol .................. Column 4C

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).
SCHEDULE BA – PART 2

OTHER LONG-TERM INVESTED ASSETS ACQUIRED
AND ADDITIONS MADE DURING THE CURRENT QUARTER

Detail Eliminated to Conserve Space

Column 6 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

This column must be completed for those investments included on Lines 0799999 and 1599999.

For Schedule BA investments with the underlying characteristics of a bond or a preferred stock instrument, insert the appropriate combination of the NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol. The list of valid SVO Administrative Symbols is shown below.

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC’s website for the Securities Valuation Office (www.naic.org/svo.htm).

The NAIC Designation, NAIC Designation Modifier and Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- NAIC Designation Column 6A
- NAIC Designation Modifier Column 6B
- SVO Administrative Symbol Column 6C

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).

NAIC Designation Modifier:

The NAIC Designation Modifier should only be used for securities reported on the lines below if eligible to receive one, as defined in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), otherwise, the field should be left blank.

- Underlying Characteristics of Bonds Lines 0799999 through 0899999
- Underlying Characteristics of Preferred Stocks Line 1399999 through 1499999

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments using reporting an NAIC Designation 6, therefore, the NAIC Designation Modifier field should be left blank.

Refer to the P&P Manual for the application of these modifiers.
SVO Administrative Symbol:

Following are valid SVO Administrative Symbols for bonds and preferred stock. Refer to the P&P Manual—Purposes and Procedures Manual of the NAIC Investment Analysis Office for the application of these symbols.

- $ Additional or other non-payment risk
- YE Year-end carry over
- FE Filing Exempt
- F Sub-paragraph D Company - insurer self-designated

The NAIC designation NAIC Designation Modifier and SVO Administrative Symbol field should be left blank for those Schedule BA investments which have not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

The NAIC Designation Category is the combination of NAIC Designation and NAIC Designation Modifier. Valid combinations of NAIC Designation and NAIC Designation Modifier for NAIC Designation Category are shown below:

<table>
<thead>
<tr>
<th>NAIC Designation</th>
<th>NAIC Designation Modifier</th>
<th>NAIC Designation Category</th>
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<tbody>
<tr>
<td>1</td>
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</tr>
</tbody>
</table>

Detail Eliminated to Conserve Space
COLUMN 6 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

Provide the appropriate NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol combination for each security. The list of valid SVO Administrative Symbols is shown below.

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC’s website for the Securities Valuation Office (www.naic.org/svo.htm).

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- NAIC Designation Column 6A
- NAIC Designation Modifier Column 6B
- SVO Administrative Symbol Column 6C

For Bond Mutual Funds – as Identified by the SVO, enter 1.

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).

NAIC Designation Modifier:

The NAIC Designation Modifier should only be used for bonds eligible to receive one, as defined in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), otherwise, the field should be left blank.

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments using reporting an NAIC Designation 6, therefore, and the NAIC Designation Modifier field should be left blank.

Refer to the P&P Manual for the application of these modifiers.
SVO Administrative Symbol:

Following are valid SVO Administrative Symbols for bonds. Refer to the Purposes and Procedures Manual of the NAIC Investment Analysis Office for the application of these symbols.

- **S**: Additional or other non-payment risk
- **FE**: Filing Exempt
- **FM**: Financially Modeled RMBS/CMBS subject to SSAP 43R
- **AM**: Analytically Modeled subject to SSAP 43R
- **YE**: Year-end carry over
- **IF**: Initial filing
- **PL**: Private Letter Rating
- **PLGI**: Private Letter Rating – reported on General Interrogatory
- **Z**: Insurer self-designated
- **GI**: General Interrogatory
- **F**: Sub-paragraph D Company – insurer self-designated
- *****: Limited to NAIC Designations 6

The NAIC Designation Category is the combination of NAIC Designation and NAIC Designation Modifier. Valid combinations of NAIC Designation and NAIC Designation Modifier for NAIC Designation Category are shown below:

<table>
<thead>
<tr>
<th>NAIC Designation</th>
<th>NAIC Designation Modifier</th>
<th>NAIC Designation Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>1A</td>
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</tbody>
</table>

**NAIC Designation Category Footnote:**

Provide the total book/adjusted carrying value amount by NAIC Designation Category that represents the amount reported in Column 11.

The sum of the amounts reported for each NAIC Designation Category in the footnote should equal Line 8399999.
SCHEDULE D – PART 2 – SECTION 1

PREFERRED STOCKS OWNED DECEMBER 31 OF CURRENT YEAR

Detail Eliminated to Conserve Space

Column 20 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

Provide the appropriate combination of NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol for each security. The list of valid Administrative Symbols is shown below.

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC’s website for the Securities Valuation Office (www.naic.org/svo.htm).

Exchange Traded Funds should be reported as perpetual securities.

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- NAIC Designation Column 20A
- NAIC Designation Modifier Column 20B
- SVO Administrative Symbol Column 20C

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).

Designation Modifier:

The NAIC Designation Modifier should only be used for securities reported on lines below if eligible to receive one, as defined in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), otherwise, the field should be left blank.

- Industrial and Miscellaneous (Unaffiliated) Perpetual Preferred Line 8499999
- Industrial and Miscellaneous (Unaffiliated) Redeemable Preferred Line 8599999

The NAIC Designation Modifier should be left blank for securities reported on lines below.

- Parent, Subsidiaries and Affiliates Line 8699999
- Parent, Subsidiaries and Affiliates Line 8799999

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments using reporting an NAIC Designation 6, therefore, the NAIC Designation Modifier field should be left blank.

Refer to the P&P Manual for the application of these modifiers.
SVO Administrative Symbol:

Following are valid SVO Administrative Symbols for preferred stock. Refer to the P&P Manual Purposes and Procedures Manual of the NAIC Investment Analysis Office for the application of these symbols.

- **S** Additional or other non-payment risk assigned by the SVO or SSG
- **FE** Filing Exempt assigned by the SVO
- **YE** Year-end carry over assigned by the SVO
- **IF** Initial filing - insurer reported designation with Admin Symbol assigned by the SVO
- **PL** Private Letter Rating assigned by the SVO
- **PLGI** Private Letter Rating – insurer assigned and reported on General Interrogatory
- **Z** Insurer assigned and reported subject to limitation
- **GI** Insurer assigned and reported on General Interrogatory
- **F** Sub-paragraph D Company – insurer self-designated
- **L** Limited to NAIC Designations 6 – insurer assigned

The NAIC Designation Category is the combination of NAIC Designation and NAIC Designation Modifier. Valid combinations of NAIC Designation and NAIC Designation Modifier for NAIC Designation Category are shown below:

<table>
<thead>
<tr>
<th>NAIC Designation</th>
<th>NAIC Designation Modifier</th>
<th>NAIC Designation Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
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<tr>
<td>6</td>
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</tbody>
</table>

NAIC Designation Category Footnote:

Provide the total book/adjusted carrying value amount by NAIC Designation Category that represents the amount reported in Column 8.

The sum of the amounts reported for each NAIC Designation Category in the footnote should equal the sum of Lines 8499999 and 8599999.
**SCHEDULE D – PART 2 – SECTION 2**

**COMMON STOCKS OWNED DECEMBER 31 OF CURRENT YEAR**

*Detail Eliminated to Conserve Space*

<table>
<thead>
<tr>
<th>Column 18</th>
<th>NAIC Designation, and NAIC Designation Modifier and SVO Administrative Symbol</th>
</tr>
</thead>
</table>

For securities reported on Line 9499999 (Mutual Funds) provide the appropriate NAIC Designation (1 through 6), and NAIC Designation Modifier (A through G) and SVO Administrative Symbol combination as assigned by the Securities Valuation Office. For all other common stock the NAIC Designation and NAIC Designation Modifier administrative symbol field should be left blank.

The listing of valid NAIC Designations, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC’s website for the Securities Valuation Office (www.naic.org/svo.htm).

The NAIC Designation and Designation Modifier will be shown as one column on the printed schedule but will be two sub-columns in the data table.

- NAIC Designation Column 18A
- NAIC Designation Modifier Column 18B
- SVO Administrative Symbol Column 18C

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).

**NAIC Designation Modifier:**

The NAIC Designation Modifier should only be used for securities reported on Line 9499999 (Mutual Funds) if eligible to receive one, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), otherwise, the field should be left blank.

The Designation Modifier should be left blank for securities reported on lines below.

- Industrial and Miscellaneous (Unaffiliated) Publicly Traded Line 9099999
- Industrial and Miscellaneous (Unaffiliated) Other Line 9199999
- Parent, Subsidiaries and Affiliates Publicly Traded Line 9299999
- Parent, Subsidiaries and Affiliates Other Line 9399999
- Unit Investment Trusts Line 9599999
- Closed-End Funds Line 9699999

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments using reporting an NAIC Designation 6, therefore, and the NAIC Designation Modifier field should be left blank.

Refer to the P&P Manual for the application of these modifiers.
SVO Administrative Symbol:

Following are valid SVO Administrative Symbols for common stock. Refer to the P&P Manual for the application of these symbols.

YE Year-end carry over

The NAIC Designation Category is the combination of NAIC Designation and NAIC Designation Modifier. Valid combinations of NAIC Designation and NAIC Designation Modifier for NAIC Designation Category are shown below:

<table>
<thead>
<tr>
<th>NAIC Designation</th>
<th>NAIC Designation Modifier</th>
<th>NAIC Designation Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
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<tr>
<td>6</td>
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<td>6</td>
</tr>
</tbody>
</table>

**Detail Eliminated to Conserve Space**

NAIC Designation Category Footnote:

Provide the total book/adjusted carrying value amount by NAIC Designation Category that represents the amount reported in Column 6.

The sum of the amounts reported for each NAIC Designation Category in the footnote should equal Line 9499999.
SCHEDULE DL – PART 1

SECURITIES LENDING COLLATERAL ASSETS

Reinvested Collateral Assets Owned December 31 Current Year
(Securities lending collateral assets reported in aggregate on Line 10 of the asset page and not included on Schedules A, B, BA, D, DB and E.)

Detail Eliminated to Conserve Space

Column 4  –  NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol reported for this column should be determined in a manner consistent with the instructions of other schedules for the lines shown below:

Lines 0199999 through 7099999 .................. Schedule D, Part 1, Column 6
Lines 7199999 through 7399999 .................. Schedule D, Part 2, Section 1, Column 20
Lines 7499999 through 7999999 .................. Schedule D, Part 2, Section 2, Column 17
Line 8899999 ........................................... Schedule BA, Part 1, Column 7
Line 8999999 ........................................... Schedule DA, Part 1, Column 22
Line 909199999 ........................................ Schedule E, Part 2, Column 11

For Lines 8699999, 8799999, 8899999, 9099999, 9199999 and 9299999, the column should be left blank.

The NAIC Designation, Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed but will be three sub-columns in the data table.

•  NAIC Designation  Column 4A
•  NAIC Designation Modifier  Column 4B
•  SVO Administrative Symbol  Column 4C

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).

Detail Eliminated to Conserve Space

NAIC Designation Category Footnote:

Provide the total book/adjusted carrying value amount by NAIC Designation Category that represents the amount reported in Column 6.
SCHEDULE DL – PART 2

SECURITIES LENDING COLLATERAL ASSETS
Reinvested Collateral Assets Owned December 31 Current Year
(Securities lending collateral assets included on Schedules A, B, BA, D, DB and E and not reported in aggregate on Line 10 of the asset page.)

Detail Eliminated to Conserve Space

Column 4  –  NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol reported for this column should be same for the security as reported in other schedules for the lines shown below:

Lines 0199999 through 7099999 .......................... Schedule D, Part 1, Column 6
Lines 7199999 through 7399999 .......................... Schedule D, Part 2, Section 1, Column 20
Lines 7499999 through 7999999 .......................... Schedule D, Part 2, Section 2, Column 17
Line 8899999 ................................................. Schedule BA, Part 1, Column 7
Line 8999999 ................................................ Schedule DA, Part 1, Column 22
Line 9099999 ................................................ Schedule E, Part 2, Column 11

For Lines 8699999, 8799999, 8999999, 9099999, 9199999 and 9299999, the column should be left blank.

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed but will be three sub-columns in the data table:

- NAIC Designation  Column 4A
- NAIC Designation Modifier  Column 4B
- SVO Administrative Symbol  Column 4C

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).

Detail Eliminated to Conserve Space
** SCHEDULE E – PART 2 – CASH EQUIVALENTS **

<table>
<thead>
<tr>
<th><strong>Columns 10 and 11 will be electronic only.</strong></th>
</tr>
</thead>
</table>

**Column 10** — Legal Entity Identifier (LEI)

Provide the 20-character Legal Entity Identifier (LEI) for any issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.

**Column 11** — NAIC Designation Category

Provide the appropriate combination of NAIC Designation Equivalent (1 through 6) and NAIC Designation Modifier Equivalent (A through G) (see table below) for each security shown.

Exchange Traded Funds – as Identified by the SVO should be reported as perpetual securities.

The NAIC Designation Category will be two sub-columns in the data table.

- **NAIC Designation Equivalent** — Column 11A
- **NAIC Designation Modifier Equivalent** — Column 11B

**NAIC Designation Equivalent:**

For the NAIC Designation Equivalent, use the NAIC Designation that would have been used for the investment had it been reported on Schedule D, Part 1 if available. If no NAIC Designation is available, the reporting entity should use a Designation Equivalent most closely resembles their credit risk the investment.

**NAIC Designation Modifier Equivalent:**

Bonds (Lines 0199999 through 6599999)

Use the NAIC Designation Modifier that would have been used for the investment had it been reported on Schedule D, Part 1 if available.

If no NAIC Designation Modifier is available, the reporting entity should use a Designation Modifier Equivalent most closely resembles their credit risk the investment.

The NAIC Designation Modifier Equivalent should be left blank for the following lines:

- **Sweep Accounts** — Line 8499999
- **Exempt Money Market Mutual Funds – as Identified by the SVO** — Line 8599999
- **All Other Money Market Mutual Funds** — Line 8699999
- **Other Cash Equivalents** — Line 8799999

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments using an NAIC Designation 6, therefore, and the NAIC Designation Modifier field should be left blank.
Refer to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for the application of these codes.

The NAIC Designation Category Equivalent is the combination of NAIC Designation Equivalent and NAIC Designation Modifier Equivalent. Valid combinations of NAIC Designation Equivalent and NAIC Designation Modifier Equivalent for NAIC Designation Category Equivalent are shown below:

<table>
<thead>
<tr>
<th>NAIC Designation Equivalent</th>
<th>NAIC Designation Modifier Equivalent</th>
<th>NAIC Designation Category Equivalent</th>
</tr>
</thead>
<tbody>
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<tr>
<td>5A</td>
<td>A</td>
<td>5A</td>
</tr>
<tr>
<td>5B</td>
<td>B</td>
<td>5B</td>
</tr>
<tr>
<td>5C</td>
<td>C</td>
<td>5C</td>
</tr>
</tbody>
</table>

**DRAFTING NOTE:** Electronic columns used for data table:

<table>
<thead>
<tr>
<th>NAIC Designation Category Equivalent</th>
<th>NAIC Designation Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>11A</td>
<td>A</td>
</tr>
<tr>
<td>11B</td>
<td>B</td>
</tr>
</tbody>
</table>

NAIC Designation Category Equivalent Footnote:

Provide the total book/adjusted carrying value amount by NAIC Designation Category Equivalent that represents the amount reported in Column 7.

The sum of the amounts reported for each NAIC Designation Category Equivalent in the footnote should equal Line 8399999.
** SCHEDULE DA – PART 1 **

SHORT-TERM INVESTMENTS OWNED DECEMBER 31 OF CURRENT YEAR

** Columns 21 and 22 will be electronic only. **

<table>
<thead>
<tr>
<th>Column 21</th>
<th>Column 22</th>
<th>NAIC Designation Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Entity Identifier (LEI)</td>
<td>NAIC Designation Category</td>
<td>Provide the 20-character Legal Entity Identifier (LEI) for any issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column 22A</th>
<th>Column 22B</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAIC Designation Equivalent</td>
<td>NAIC Designation Modifier Equivalent</td>
</tr>
</tbody>
</table>

Exchange Traded Funds – as Identified by the SVO should be reported as perpetual securities.

The NAIC Designation Category will be two sub-columns in the data table.

- **NAIC Designation Equivalent**
- **NAIC Designation Modifier Equivalent**

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier (e.g., “1.A”).

NAIC Designation Equivalent:

For the NAIC Designation Equivalent, use the NAIC designation that would have been used for the investment had it been reported on Schedule D, Part 1 if available. If no NAIC Designation is available, the reporting entity should use a NAIC Designation Equivalent most closely resembles their credit risk the investment.

NAIC Designation Modifier Equivalent:

Bonds (Lines 0199999 through 6599999)

Use the NAIC Designation Modifier that would have been used for the investment had it been reported on Schedule D, Part 1 if available.

If no NAIC Designation Modifier is available, the reporting entity should use a NAIC Designation Modifier Equivalent most closely resembles their credit risk the investment.

The NAIC Designation Modifier Equivalent should be left blank for the following lines:

- Parent, Subsidiaries and Affiliates – Mortgage Loans Line 8499999
- Parent, Subsidiaries and Affiliates – Other Short-Term Invested Assets Line 8599999
- Mortgage Loans Line 8799999
• Other Short-Term Invested Assets  

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments using reporting an NAIC Designation 6, therefore, and the NAIC Designation Modifier field should be left blank.

Refer to the Purposes and Procedures Manual of the NAIC Investment Analysis Office for the application of these codes.

The NAIC Designation Category Equivalent is the combination of NAIC Designation Equivalent and NAIC Designation Modifier Equivalent. Valid combinations of NAIC Designation Equivalent and NAIC Designation Modifier Equivalent for NAIC Designation Category Equivalent are shown below:

<table>
<thead>
<tr>
<th>NAIC Designation Equivalent</th>
<th>NAIC Designation Modifier Equivalent</th>
<th>NAIC Designation Category Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 A</td>
<td>1A</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>1B</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>1C</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>1D</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>1E</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>1F</td>
<td></td>
</tr>
<tr>
<td>G</td>
<td>1G</td>
<td></td>
</tr>
<tr>
<td>2 A</td>
<td>2A</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>2B</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>2C</td>
<td></td>
</tr>
<tr>
<td>3 A</td>
<td>3A</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>3B</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>3C</td>
<td></td>
</tr>
<tr>
<td>4 A</td>
<td>4A</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>4B</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>4C</td>
<td></td>
</tr>
<tr>
<td>5 A</td>
<td>5A</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>5B</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>5C</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

DRAFTING NOTE: Electronic columns used for data table:

<table>
<thead>
<tr>
<th>22 A</th>
<th>22 B</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>B</td>
<td>B</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

NAIC Designation Category Equivalent Footnote:

Provide the total book/adjusted carrying value amount by NAIC Designation Category Equivalent that represents the amount reported in Column 7.

The sum of the amounts reported for each NAIC Designation Category Equivalent in the footnote should equal Line 8399999.
SCHEDULE BA – PART 1

OTHER LONG-TERM INVESTED ASSETS OWNED DECEMBER 31 OF CURRENT YEAR

Detail Eliminated to Conserve Space

Column 7 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

This column must be completed for those investments included on Lines 0799999 and 1599999.

For Schedule BA investments with the underlying characteristics of a bond or a preferred stock instrument, insert the appropriate combination of the NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol. The List of valid SVO Administrative Symbols is shown below.

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC’s website for the Securities Valuation Office (www.naic.org/svo.htm).

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- NAIC Designation Column 7A
- NAIC Designation Modifier Column 7B
- SVO Administrative Symbol Column 7C

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).

NAIC Designation Modifier:

The NAIC Designation Modifier should only be used for securities reported on the lines below if eligible to receive one, as defined in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), otherwise, the field should be left blank.

- Underlying Characteristics of Bonds Lines 0799999 through 0899999
- Underlying Characteristics of Preferred Stocks Line 1399999 through 1499999

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments using reporting an NAIC Designation 6, therefore, and the NAIC Designation Modifier field should be left blank.

Refer to the P&P Manual for the application of these modifiers.

SVO Administrative Symbol:

Following are valid SVO Administrative Symbols for bonds and preferred stock. Refer to the P&P Manual – Purposes and Procedures Manual of the NAIC Investment Analysis Office for the application of these symbols.

S Additional or other non-payment risk
YE Year-end carry over
FE Filing Exempt
F Sub-paragraph D Company – insurer self-designated
The NAIC designation **NAIC Designation Modifier** and **SVO Administrative Symbol** field should be left blank for those Schedule BA investments which have not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.

The NAIC Designation Category is the combination of NAIC Designation and NAIC Designation Modifier. Valid combinations of NAIC Designation and NAIC Designation Modifier for NAIC Designation Category are shown below:

<table>
<thead>
<tr>
<th>NAIC Designation</th>
<th>NAIC Designation Modifier</th>
<th>NAIC Designation Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>1A</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>1B</td>
</tr>
<tr>
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<td>C</td>
<td>1C</td>
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<tr>
<td></td>
<td>D</td>
<td>1D</td>
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<td></td>
<td>E</td>
<td>1E</td>
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<td>G</td>
<td>1G</td>
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<td></td>
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<td>C</td>
<td>3C</td>
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<td>A</td>
<td>4A</td>
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<td>B</td>
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<td>C</td>
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<td>B</td>
<td>5B</td>
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<td></td>
<td>C</td>
<td>5C</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Detail Eliminated to Conserve Space**

Column 26 – Maturity Date

Use only for securities included in the following subtotal lines.

Fixed or Variable Interest Rate Investments that have the Underlying Characteristics of:

Mortgage Loans

- Unaffiliated
  
  Unaffiliated............................................................................................................. 0999999

- Affiliated
  
  Affiliated................................................................................................................. 1099999

State the date the mortgage loan matures.

**NAIC Designation Category Footnote:**

Provide the total book/adjusted carrying value amount by NAIC Designation Category that represents the amount in reported in Column 12.

The sum of the amounts reported for each NAIC Designation Category in the footnote should equal the sum of Lines 0799999, 0899999, 1399999 and 1499999.
QUARTERLY STATEMENT BLANK – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE D – PART 3
Show All Long-Term Bonds and Stock Acquired During the Current Quarter

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUSIP Identification</td>
<td>Description</td>
<td>Foreign</td>
<td>Date Acquired</td>
<td>Name of Vendor</td>
<td>Number of Shares of Stock</td>
<td>Actual Cost</td>
<td>Par Value</td>
<td>Paid for Accrued Interest and Dividends</td>
<td>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</td>
</tr>
<tr>
<td>........................................</td>
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<td>.................</td>
</tr>
</tbody>
</table>

Detail Eliminated to Conserve Space

Columns used for data table:

<table>
<thead>
<tr>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>10A</td>
</tr>
</tbody>
</table>

DRAFTING NOTE: The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol Column will appear as one column on the PDF and printed page but will be three sub-columns (10A, 10B and 10C) in the data table.
### SCHEDULE D – PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of During the Current Quarter

| CUSIP Identification | Description | Foreign | Disposal Date | Name of Purchaser | Number of Shares of Stock | Consideration | Par Value | Actual Cost | Prior Year Book/Adjusted Carrying Value | Unrealized Valuation Increase/(Decrease) | Current Year’s Amortization | Current Year’s Other-Than-Temporary Impairment Recognition | Total Change in B/A/C/V (11-12-13) | Total Foreign Exchange Change in B/A/C/V | Book/Adjusted Carrying Value at Disposal Date | Foreign Exchange Gain/(Loss) on Disposal | Realized Gain/(Loss) on Disposal | Total Gain/(Loss) on Disposal | Bond Interest/Stock Dividends Received During Year | Bond Interest/Stock Dividends Received During Year | Bond Interest/Stock Dividends Received During Year | NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol |
|----------------------|-------------|---------|---------------|-------------------|-------------------------|----------------|----------|------------|----------------------------------------|-------------------------------------------|--------------------------|---------------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|-------------------------------------------------|
| 1                    |             |         |               |                   |                         |                |          |            |                         |                                          |                          |                                   |                                 |                       |                                      |                                       |                                       |                                               |                                       |                                               |                                                |                                                |                                                | 1A FE                                                   |
| 2                    |             |         |               |                   |                         |                |          |            |                         |                                          |                          |                                   |                                 |                       |                                      |                                       |                                       |                                               |                                       |                                               |                                                |                                                |                                                | 2B PLGI                                                  |

**Column eliminated to conserve space:**

Columns used for data table:

- **22**
  - NAIC Designation
  - NAIC Designation Modifier and SVO Administrative Symbol

DRAFTING NOTE: The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol Column will appear as one column on the PDF and printed page but will be three sub-columns (22A, 22B and 22C) in the data table.
SCHEDULE DL – PART 1
SECURITIES LENDING COLLATERAL ASSETS
Reinvested Collateral Assets Owned Current Statement Date
(Securities lending collateral assets reported in aggregate on Line 10 of the Assets page and not included on Schedules A, B, BA, D DB and E)

<table>
<thead>
<tr>
<th>CUSIP Identification</th>
<th>Description</th>
<th>Code</th>
<th>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</th>
<th>Fair Value</th>
<th>Book/Adjusted Carrying Value</th>
<th>Maturity Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>...................................................................</td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>...................................................................</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Detail Eliminated to Conserve Space

Columns used for data table:

<table>
<thead>
<tr>
<th>4</th>
<th>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4A</td>
</tr>
<tr>
<td>1</td>
<td>A</td>
</tr>
<tr>
<td>2</td>
<td>B</td>
</tr>
</tbody>
</table>

DRAFTING NOTE: The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol Column will appear as one column on the PDF and printed page but will be three sub-columns (4A, 4B and 4C) in the data table.
SCHEDULE DL – PART 2
SEcurities Lending Collateral Assets
Reinvested Collateral Assets Owned Current Statement Date
(Securities lending collateral assets included on Schedules A, B, BA, D, DB and E
and not reported in aggregate on Line 10 of the Assets page)

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</td>
<td>Fair Value</td>
<td>Book/Adjusted Carrying Value</td>
<td>Maturity Dates</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Detail Eliminated to Conserve Space

Columns used for data table:

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</td>
</tr>
<tr>
<td>4A</td>
<td>4B</td>
<td>4C</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>A</td>
<td>FE</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>B</td>
<td>PLGI</td>
<td></td>
</tr>
</tbody>
</table>

DRAFTING NOTE: The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol Column will appear as one column on the PDF and printed page but will be three sub-columns (4A, 4B and 4C) in the data table.
**SCHEDULE BA – PART 2**
Showing Other Long-Term Invested Assets ACQUIRED AND ADDITIONS MADE During the Current Quarter

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>Location</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUSIP Identification</td>
<td>Name or Description</td>
<td>City</td>
<td>State</td>
<td>Name of Vendor or General Partner</td>
<td>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</td>
<td>Date Originally Acquired</td>
<td>Type and Strategy</td>
<td>Actual Cost at Time of Acquisition</td>
<td>Additional Investment Made After Acquisition</td>
<td>Amount Of Encumbrances</td>
<td>Commitment for Additional Investment</td>
<td>Percentage of Ownership</td>
<td></td>
</tr>
</tbody>
</table>

**Detail Eliminated to Conserve Space**

Columns used for data table:

<table>
<thead>
<tr>
<th>6</th>
<th>6A</th>
<th>6B</th>
<th>6C</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>A</td>
<td>FE</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>B</td>
<td>PLGI</td>
<td></td>
</tr>
</tbody>
</table>

**DRAFTING NOTE:** The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol Column will appear as one column on the PDF and printed page but will be three sub-columns (6A, 6B and 6C) in the data table.
**ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, HEALTH, PROPERTY, TITLE, SEPARATE ACCOUNTS AND PROTECTED CELL**

**SCHEDULE D – PART 1**

Showing All Long-Term **BONDS** Owned December 31 of Current Year

| CUSIP | Description | Code | NAIC Designation | NAIC Designation Modifier and SVO Administrative Symbol | Actual Cost | Fair Value | Par Value | Book/Adjusted Carrying Value | Unrealized Valuation Increase/ (Decrease) | Current Year’s Other-Than-Temporary Impairment Recognized | Current Year’s (Amortization)/Accretion | Total Foreign Exchange Change in B/A/CV | Rate of Effective Rate of When Paid | Admitted Amount Due & Accrued Amount Due During Year | Total Foreign Exchange Change in B/A/CV | Rate of Effective Rate of When Paid | Admitted Amount Due & Accrued Amount Due During Year | Total Foreign Exchange Change in B/A/CV | Rate of Effective Rate of When Paid | Admitted Amount Due & Accrued Amount Due During Year | Total Foreign Exchange Change in B/A/CV | Rate of Effective Rate of When Paid | Admitted Amount Due & Accrued Amount Due During Year | Total Foreign Exchange Change in B/A/CV | Rate of Effective Rate of When Paid | Admitted Amount Due & Accrued Amount Due During Year | Total Foreign Exchange Change in B/A/CV | Rate of Effective Rate of When Paid | Admitted Amount Due & Accrued Amount Due During Year | Total Foreign Exchange Change in B/A/CV | Rate of Effective Rate of When Paid | Admitted Amount Due & Accrued Amount Due During Year |
|-------|-------------|------|------------------|-----------------------------------------------|------------|-----------|----------|---------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|

**Detail Eliminated to Conserve Space**

| Total Bonds | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

Columns used for data table:

<table>
<thead>
<tr>
<th>6</th>
<th>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6A</td>
</tr>
<tr>
<td>1</td>
<td>A</td>
</tr>
<tr>
<td>2</td>
<td>B</td>
</tr>
</tbody>
</table>

**DRAFTING NOTE:** The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol Column will appear as one column on the PDF and printed page but will be three sub-columns (6A, 6B and 6C) in the data table.
### SCHEDULE D – PART 2 – SECTION 1
Showing All PREFERRED STOCKS Owned December 31 of Current Year

| Codes | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 |
|-------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|
| CUSIP Identification | Description | Code | Par Value per Share | Rate per Share | Number of Shares | Book/Adjusted Carrying Value per Share | Par Value per Share | Fair Value per Share | Fair Value | Declared but Unpaid | Amount Reserved During Year | Non-Declared Declared But Unpaid | Unrealized Valuation Increase/ (Decrease) | Current Year’s Other-Than- Temporary Impairment Recognized | Current Year’s Change in B./A.C.V. | Total Change in B./A.C.V. | Total Foreign Exchange Change in B./A.C.V. | NAIC Designation | NAIC Designation Modifier and SVO Administrative Symbol | Date Acquired |
| 999999 | Total Preferred Stocks | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

**Book/Adjusted Carrying Value included in this schedule by NAIC Designation Category:**

1A $ ........................ 1B $  .......................  1C $  ........................  1D $  .......................  1E $  ........................  1F $  .......................  1G $  ........................ 2A $  ........................ 2B $  .......................  2C $  ........................  3A $  .......................  3C $  ........................  3C $  .......................  4A $  ........................ 4B $  ........................ 4C $  .......................  5A $  ........................  5B $  .......................  5C $  ........................  6 $  ....................... 6A $  ........................ 6B $  .......................  6C $  ........................  6D $  ........................  6E $  ........................  6F $  ........................  6G $  ........................  6H $  ........................  6I $  ........................  6J $  ........................

**Columns used for data table:**

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<th>20C</th>
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</thead>
<tbody>
<tr>
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<td>A</td>
<td>FE</td>
</tr>
<tr>
<td>2</td>
<td>B</td>
<td>PLGI</td>
</tr>
</tbody>
</table>

**DRAFTING NOTE:**

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol Column will appear as one column on the PDF and printed page but will be three sub-columns (20A, 20B and 20C) in the data table.
### SCHEDULE D – PART 2 – SECTION 2
Showing all COMMON STOCKS Owned December 31 of Current Year

<table>
<thead>
<tr>
<th>CUSIP Identification</th>
<th>Description</th>
<th>Code</th>
<th>Number of Shares</th>
<th>Book/Adjusted Carrying Value</th>
<th>Rate per Share Used to Obtain Fair Value</th>
<th>Fair Value</th>
<th>Actual Cost</th>
<th>Declared but Unpaid Dividends</th>
<th>Amount Received During Year</th>
<th>Unrealized Valuation Increase/Decrease</th>
<th>Current Year's Other-Than-Temporary Impairment Recognized</th>
<th>Total Change in B./A.C.V.</th>
<th>Total Foreign Exchange Change in B./A.C.V.</th>
<th>Date Acquired</th>
<th>NAIC Designation and NAIC Designation Modifier and NAIC Designation Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>9799999</td>
<td>Total Common Stocks</td>
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<td></td>
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<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>9899999</td>
<td>Total Preferred and Common Stocks</td>
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**Columns used for data table:**

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<thead>
<tr>
<th>Column</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
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<td>NAIC Designation</td>
</tr>
<tr>
<td>2</td>
<td>NAIC Designation Modifier and SVO Administrative Symbol</td>
</tr>
</tbody>
</table>

**DRAFTING NOTE:** The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol Column will appear as one column on the PDF and printed page but will be three sub-columns (18A, 18B, and 18C) in the data table.
## SCHEDULE DL – PART 1

### SECURITIES LENDING COLLATERAL ASSETS

Reinvested Collateral Assets Owned December 31 Current Year

(Securities lending collateral assets reported in aggregate on Line 10 of the Assets page and not included on Schedules A, B, BA, D, DB and E)

<table>
<thead>
<tr>
<th>CUSIP Identification</th>
<th>Description</th>
<th>Code</th>
<th>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</th>
<th>Fair Value</th>
<th>Book/Adjusted Carrying Value</th>
<th>Maturity Dates</th>
</tr>
</thead>
<tbody>
<tr>
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<td>4</td>
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<tr>
<td>5</td>
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</tr>
</tbody>
</table>

**Detail Eliminated to Conserve Space**

9999999 Totals XXX

**General Interrogatories:**

1. Total activity for the year Fair Value $ .................. ........ Book/Adjusted Carrying Value $ .........................
2. Average balance for the year Fair Value $ ................. ........ Book/Adjusted Carrying Value $ ..................... ........
3. Book/Adjusted Carrying Value included in this schedule by NAIC Designation Category:
   - 1A $ ....................
   - 1B $ ...................
   - 1C $ ...................
   - 1D $ ...................
   - 1E $ ...................
   - 1F $ ...................
   - 1G $ ....................
   - 2A $ ...................
   - 2B $ ...................
   - 2C $ ...................
   - 3A $ ...................
   - 3B $ ...................
   - 3C $ ...................
   - 4A $ ...................
   - 4B $ ...................
   - 4C $ ...................
   - 5A $ ...................
   - 5B $ ...................
   - 5C $ ...................
   - 6 $ ...................

### Columns used for data table:

- **Column 4:** NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol
- **Column 4A:** 4B 4C
- **Column 4B:** 4A
- **Column 4C:** A B FGI

**DRAFTING NOTE:** The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol Column will appear as one column on the PDF and printed page and will be three sub-columns (4A, 4B and 4C) in the data table.
**SCHEDULE DL – PART 2**

**SEcurities lending collateral assets**

Reinvested Collateral Assets Owned December 31 Current Year

(Securities lending collateral assets included on Schedules A, B, BA, D, DB and E and not reported in aggregate on Line 10 of the Assets page)

and not reported in aggregate on Line 10 of the Assets page

<table>
<thead>
<tr>
<th>CUSIP Identification</th>
<th>Description</th>
<th>NAIC Designation/NAIC Designation Modifier and SVO Administrative Symbol</th>
<th>Fair Value</th>
<th>Book/Adjusted Carrying Value</th>
<th>Maturity Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

**General Interrogatories:**

1. Total activity for the year Fair Value $ ...............  Book/Adjusted Carrying Value $ ............... 
2. Average balance for the year Fair Value $ ...............  Book/Adjusted Carrying Value $ ............... 

Columns used for data table:

<table>
<thead>
<tr>
<th>4</th>
<th>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</th>
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</thead>
<tbody>
<tr>
<td>4A</td>
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<td>1</td>
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</tr>
<tr>
<td>2</td>
<td>PLGI</td>
</tr>
</tbody>
</table>

**DRAFTING NOTE:** The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol Column will appear as one column on the PDF and printed page but will be three sub-columns (4A, 4B and 4C) in the data table.
### SCHEDULE BA – PART 1

**Showing Other Long-Term Invested Assets OWNED December 31 of Current Year**

<table>
<thead>
<tr>
<th>CUSIP Identification</th>
<th>Name or Description</th>
<th>Code</th>
<th>City</th>
<th>State</th>
<th>Name of Vendor or General Partner</th>
<th>NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol</th>
<th>Date Originally Acquired</th>
<th>Type and Strategy</th>
<th>Actual Cost</th>
<th>Fair Value</th>
<th>Book/Adjusted Carrying Value Less Encumbrances</th>
<th>Unrealized Valuation Increase (Decrease)</th>
<th>Current Year’s Other-Than-Temporary Impairment Recognized</th>
<th>Capitalized Deferred Interest and Other</th>
<th>Total Foreign Exchange Change in B./A.C.V.</th>
<th>Investment Income</th>
<th>Commitment for Additional Investment</th>
<th>Percentage of Ownership</th>
</tr>
</thead>
<tbody>
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</table>

**Detail Eliminated to Conserve Space**

Book/Adjusted Carrying Value included in this schedule by NAIC Designation Category:

<table>
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<tr>
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<th>1B</th>
<th>1C</th>
<th>1D</th>
<th>1E</th>
<th>1F</th>
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<th>2B</th>
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<th>4C</th>
<th>5A</th>
<th>5B</th>
<th>5C</th>
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</table>

Columns used for data table:

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<tbody>
<tr>
<td><strong>NAIC Designation</strong></td>
</tr>
<tr>
<td>7A</td>
</tr>
<tr>
<td>7B</td>
</tr>
</tbody>
</table>
```

**DRAFTING NOTE:** The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol Column will appear as one column on the PDF and printed page but will be three sub-columns (7A, 7B and 7C) in the data table.
### SCHEDULE DA – PART 1

**Showing all SHORT-TERM INVESTMENTS Owned December 31 of Current Year**

| Description Code | Description Name of Vendor | Date Acquired | Maturity Date | Book/Adjusted Carrying Value | Unrealized Valuation Increase/Decrease | Current Year’s Other-Than-Temporary Impairment Recognized | Total Foreign Exchange Change in B/A/C/V | Par Value | Actual Cost | Accrued Interest & Amortization & Accretion | Total | Non-Admitted Due and Accrued | Effective Rate of When Paid | Amount Received During Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Detail Eliminated to Conserve Space** |

---

**Book/Adjusted Carrying Value included in this schedule by NAIC Designation Category:**

1A $ ........................ 1B $  ....................... 1C $ ........................ 1D $  ....................... 1E $  ........................ 1F $  ....................... 1G $  ........................ 2A $  ........................ 2B $  ....................... 2C $  ........................ 3A $  ........................ 3B $  ....................... 3C $  ........................ 4A $  ....................... 4B $  ....................... 4C $  ........................ 5A $  ........................ 5B $  ....................... 5C $  ........................ 6 $  ....................... 6A $  ........................ 6B $  ....................... 6C $  ........................ 7 $  ....................... 8 $  ....................... 9 $  ....................... 10 $  ........................ 11 $  ....................... 12 $  ........................ 13 $  ........................ 14 $  ........................ 15 $  ........................ 16 $  ........................ 17 $  ........................ 18 $  ........................ 19 $  ........................ 20 $  ........................

---

### SCHEDULE E – PART 2 – CASH EQUIVALENTS

**Show Investments Owned December 31 of Current Year**

<table>
<thead>
<tr>
<th>CUSIP</th>
<th>Description</th>
<th>Code</th>
<th>Date Acquired</th>
<th>Rate of Interest</th>
<th>Maturity Date</th>
<th>Book/Adjusted Carrying Value</th>
<th>Amount of Interest Due &amp; Accrued</th>
<th>Amount Received During Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Detail Eliminated to Conserve Space</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**Book/Adjusted Carrying Value included in this schedule by NAIC Designation Category:**

1A $ ........................ 1B $  ....................... 1C $ ........................ 1D $  ....................... 1E $  ........................ 1F $  ....................... 1G $  ........................ 2A $  ........................ 2B $  ....................... 2C $  ........................ 3A $  ........................ 3B $  ....................... 3C $  ........................ 4A $  ....................... 4B $  ....................... 4C $  ........................ 5A $  ........................ 5B $  ....................... 5C $  ........................ 6 $  ....................... 6A $  ........................ 6B $  ....................... 6C $  ........................ 7 $  ....................... 8 $  ....................... 9 $  ....................... 10 $  ........................ 11 $  ....................... 12 $  ........................ 13 $  ........................ 14 $  ........................ 15 $  ........................ 16 $  ........................ 17 $  ........................ 18 $  ........................ 19 $  ........................ 20 $  ........................
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<thead>
<tr>
<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
<th>Date Adopted</th>
<th>Statement Type</th>
<th>Filing Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>Schedule D, Part 1A, Section 2</td>
<td><strong>CHANGE TO BLANK</strong>&lt;br&gt;Make the following changes for consistency with the bond categories for Schedule D, Part 1.&lt;br&gt;Add the “Unaffiliated” to the description of Section 10.&lt;br&gt;Add line for “Affiliated Bank Loans” and add “Unaffiliated” to the existing line for bank loans to Sections 11 through 14 of the schedule.&lt;br&gt;Add lines for “Affiliated bank loans – issued” and “Affiliated bank loans – acquired” to Sections 8 and 11 of the schedule.&lt;br&gt;Because the number of lines in some to the sections exceed 9, the format of the line numbers is changed from X.X to X.XX.</td>
<td>08/20/2019</td>
<td>H, L/F, P/C, T, SA</td>
<td>Annual</td>
</tr>
<tr>
<td>2019</td>
<td>Schedule D – Summary by Country</td>
<td><strong>CHANGE TO BLANK</strong>&lt;br&gt;For Lines 8 through 11, The description of bonds should be modified to refer to “Unaffiliated Bank Loans”.</td>
<td>08/20/2019</td>
<td>H, L/F, P/C, T, SA</td>
<td>Annual</td>
</tr>
</tbody>
</table>

Statement Type:<br>
H = Health; L/F = Life/Fraternall Combined; P/C = Property/Casualty; SA = Separate Accounts; T = Title

© 2019 National Association of Insurance Commissioners

Attachment Two-B2
Accounting Practices and Procedures (E) Task Force
12/8/19
<table>
<thead>
<tr>
<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
<th>Date Adopted</th>
<th>Statement Type</th>
<th>Filing Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>General Interrogatories, Part 1</td>
<td><strong>CHANGE TO BLANK</strong>&lt;br&gt;Make change shown below:&lt;br&gt;28.0597 For those firms/individuals listed in the table for Question 28.05, do any firms/individuals unaffiliated with the reporting entity (i.e., designated with a &quot;U&quot;) manage more than 10% of the reporting entity’s invested assets?&lt;br&gt;28.0598 For firms/individuals unaffiliated with the reporting entity (i.e., designated with a “U”) listed in the table for Question 28.05, does the total assets under management aggregate to more than 50% of the reporting entity’s invested assets?</td>
<td>08/20/2019</td>
<td>H, L/F, P/C, T</td>
<td>Annual</td>
</tr>
<tr>
<td>2020</td>
<td>General Interrogatories, Part 1</td>
<td><strong>CHANGE TO BLANK</strong>&lt;br&gt;Make change shown below:&lt;br&gt;17.5097 For those firms/individuals listed in the table for Question 17.5, do any firms/individuals unaffiliated with the reporting entity (i.e., designated with a “U”) manage more than 10% of the reporting entity’s invested assets?&lt;br&gt;17.5098 For firms/individuals unaffiliated with the reporting entity (i.e., designated with a “U”) listed in the table for Question 17.5, does the total assets under management aggregate to more than 50% of the reporting entity’s invested assets?</td>
<td>08/20/2019</td>
<td>H, L/F, P/C, T</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Effective</td>
<td>Table Name</td>
<td>Description</td>
<td>Date Adopted</td>
<td>Statement Type</td>
<td>Filing Type</td>
</tr>
<tr>
<td>-----------</td>
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<td>-------------</td>
</tr>
</tbody>
</table>
| 2019      | Summary Investment Schedule | CHANGE TO BLANK  
Modify the line description for Line 12 to read “Other Invested Assets (Page 2, Line11)”. Line 12 is not a write-in line on this schedule. | 08/20/2019 | H, L/F, P/C, T | Annual |
| 2019      | Summary Investment Schedule | CHANGE TO INSTRUCTIONS  
Modify the line description as shown below. Line 12 is not a write-in line on this schedule. The include statement should read similar to the prior year.  
Line 12 – Aggregate Write-ins for Other Invested Assets (Page 2, Line11)  
Include: The value of all other invested assets that have not been included in Lines 1 to 11 above. Enter the total of the write-ins listed in schedule Details of Write-ins Aggregated at Line 12 for Invested Assets  
Column 1 should equal the amount reported in Line 11, Column 1, Page 2, Assets  
Column 3 should equal the amount reported in Line 11, Column 3, Page 2, Assets | 08/20/2019 | H, L/F, P/C, T | Annual |
| 2019      | Schedule D, Part 1 | CHANGE TO INSTRUCTIONS  
For Column 6 delete the “AM” administrative symbol for the list in the instructions. | 08/20/2019 | H, L/F, P/C, T | Annual |
<table>
<thead>
<tr>
<th>Table Name</th>
<th>Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule D, Part 1A, Section 2</td>
<td>2019</td>
</tr>
</tbody>
</table>

### CHANGE TO INSTRUCTIONS

Make the changes below to reflect reporting of affiliated and unaffiliated bank loans on the schedule.

Section 10. Unaffiliated Bank Loans

For each major section, the following subgroups, which are described in the Investment Schedules General Instructions, shall be presented by maturity category:

- Sections 1 through 8:
  - Issuer Obligations
  - Residential Mortgage-Backed Securities
  - Commercial Mortgage-Backed Securities
  - Other Loan-Backed and Structured Securities

- Section 8:
  - Affiliated Bank Loans – Issued
  - Exchange Traded Funds – as identified by

- Section 9:
  - Affiliated Bank Loans – Acquired

Lines 659999 from Schedule D, Part 1, Column 11; Schedule DA, Part 1, Column 7; and Schedule E, Part 2, Column 7.
<table>
<thead>
<tr>
<th>Table Name</th>
<th>Description</th>
<th>Effective</th>
<th>Date Adopted</th>
<th>Statement Type</th>
<th>Filing Type</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Sections 13 through 14: Residential Mortgage-Backed Securities</td>
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<td>Sections 14 through 15: Other Loan-Backed and Structured Securities</td>
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<td>Unaffiliated Bank Loans</td>
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**CHANGE TO INSTRUCTIONS**

- Modify instruction as shown below for Lines 8 through 11 – Bonds – Industrial and Miscellaneous, SVO Identified Funds, Unaffiliated Bank Loans and Hybrid Securities (Unaffiliated).
- Include: Bond Mutual Funds – as Identified by the SVO and Exchange Traded Funds – as Identified by the SVO reported in Schedule D, Part 1.
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<th>Annual / Quarterly</th>
<th>Description</th>
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<tr>
<td>2019</td>
<td>Schedule D, Part 3</td>
<td>CHANGE TO INSTRUCTIONS Line 8199999 – Affiliated Bank Loans should not be added to the list of line categories for the schedule as affiliated bank loans should be reported on Line 5599999 – Parent, Subsidiaries and Affiliates. SVO Identified Funds line number changes to 8099999.</td>
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<td>Schedule D, Part 4</td>
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<td>Schedule D, Part 5</td>
<td>CHANGE TO INSTRUCTIONS Line 8199999 – Affiliated Bank Loans should not be added to the list of line categories for the schedule as affiliated bank loans should be reported on Line 5599999 – Parent, Subsidiaries and Affiliates. SVO Identified Funds line number changes to 8099999.</td>
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<td>Schedule D, Part 3</td>
<td>CHANGE TO INSTRUCTIONS Line 8199999 – Affiliated Bank Loans should not be added to the list of line categories for the schedule as affiliated bank loans should be reported on Line 5599999 – Parent, Subsidiaries and Affiliates. SVO Identified Funds line number changes to 8099999.</td>
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<td>2020</td>
<td>Schedule D, Part 4</td>
<td><strong>CHANGE TO INSTRUCTIONS</strong></td>
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<td>Line 8199999 – Affiliated Bank Loans should not be added to the list of line categories for the schedule as affiliated bank loans should be reported on Line 5599999 – Parent, Subsidiaries and Affiliates. SVO Identified Funds line number changes to 8099999.</td>
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<td>2019</td>
<td>General Interrogatories,</td>
<td><strong>CHANGE TO INSTRUCTIONS</strong></td>
</tr>
<tr>
<td></td>
<td>Part 1</td>
<td>Make change shown below:</td>
</tr>
<tr>
<td></td>
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<td>28.0597 If the total assets under management of any the firms/individuals unaffiliated with the reporting entity (i.e., designated with a “U”) listed in the table for Question 28.05 are greater than 10% of the reporting entity’s invested assets (Line 12 of the Asset page), answer “YES” to Question 28.0597.</td>
</tr>
<tr>
<td></td>
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<td>28.0598 If the total assets under management of all the firms/individuals unaffiliated with the reporting entity (i.e., designated with a “U”) listed in the table for Question 28.05 are greater than 50% of the reporting entity’s invested assets (Line 12 of the Asset page), answer “YES” to Question 28.0598. When determining the aggregate total of assets under management, include all firms/individuals unaffiliated with the reporting entity not just those who manage more than 10% of the reporting entity’s assets.</td>
</tr>
<tr>
<td>Effective</td>
<td>Table Name</td>
<td>Description</td>
</tr>
<tr>
<td>-----------</td>
<td>------------</td>
<td>-------------</td>
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</table>
| 2020      | General Interrogatories, Part 1 | **CHANGE TO INSTRUCTIONS**  
Make change shown below:  
17.5097 If the total assets under management of any the firms/individuals unaffiliated with the reporting entity (i.e., designated with a “U”) listed in the table for Question 17.5 are greater than 10% of the reporting entity’s invested assets (Line 12 of the Asset page), answer “YES” to Question 17.5097.  
17.5098 If the total assets under management of all the firms/individuals unaffiliated with the reporting entity (i.e., designated with a “U”) listed in the table for Question 17.5 are greater than 50% of the reporting entity’s invested assets (Line 12 of the Asset page), answer “YES” to Question 17.5098. When determining the aggregate total of assets under management, include all firms/individuals unaffiliated with the reporting entity, not just those who manage more than 10% of the reporting entity’s assets. | 08/20/2019 | H, U/F, P/C, T | Quarterly |
### NAIC BLANKS (E) WORKING GROUP

**Blanks Agenda Item Submission Form**

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<th>CONTACT PERSON:</th>
<th>Todd Sells</th>
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<tr>
<td>ON BEHALF OF:</td>
<td>Liquidity Assessment (EX) Subgroup</td>
</tr>
<tr>
<td>NAME:</td>
<td>Justin Schrader (NE)</td>
</tr>
<tr>
<td>TITLE:</td>
<td>Chair</td>
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**DATE:** 07/16/2019

**FOR NAIC USE ONLY**

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<tr>
<td>Changes to Existing Reporting</td>
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<tr>
<td>New Reporting Requirement</td>
</tr>
</tbody>
</table>

**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**

| No Impact | [ X ] |
| Modifies Required Disclosure | [ ] |

**DISPOSITION**

| [ ] Rejected For Public Comment |
| [ ] Referred To Another NAIC Group |
| [ ] Received For Public Comment |
| [ X ] Adopted Date 10/22/2019 |
| [ ] Rejected Date |
| [ ] Deferred Date |
| [ ] Other (Specify) |

**BLANK(S) TO WHICH PROPOSAL APPLIES**

| ANNUAL STATEMENT | [ X ] |
| QUARTERLY STATEMENT | [ ] |
| INSTRUCTIONS | [ X ] |
| BLANK | [ ] |
| [ X ] Life, Accident & Health/Fraternal |
| Property/Casualty | [ ] |
| [ ] Protected Cell |
| [ ] Health | [ ] |
| [ ] Health (Life Supplement) |

Anticipated Effective Date: Annual 2020

**IDENTIFICATION OF ITEM(S) TO CHANGE**

For Note 33, modify the illustration to disclosure individually Separate Account with Guarantees products and Separate Account Nonguaranteed products.

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to data capture individually Separate Account with Guarantees products and Separate Account Nonguaranteed products.

**NAIC STAFF COMMENTS**

Comment on Effective Reporting Date: ____________________________________________

Other Comments: ________________________________________________________________

**This section must be completed on all forms.**
NOTES TO FINANCIAL STATEMENTS

33. Analysis of Life Actuarial Reserves by Withdrawal Characteristics

Instruction:

Disclose the amounts of account value, cash value and reserve for the breakouts of life insurance by withdrawal characteristics, separately for General Account products, Separate Account with Guarantees products and Separate Account Nonguaranteed products, as follows:

Note: The difference between the account value and the cash value is the surrender charge, if any. After the surrender period is over, there is no difference. Some contract types have no account value such as traditional whole life, term, etc. So, if there is no account value, leave it blank. UL typically has an account value and a cash surrender value.

Just as account values are not reduced for policy loans taken and outstanding, the cash value amount reported in this note should not be reduced for policy loans taken and outstanding. This will ensure the difference between account value and cash value is the actual surrender charge.

• A. Subject to discretionary withdrawal, surrender values, or policy loans:
  (1) Term Policies with Cash Value
  (2) Universal Life
  (3) Universal Life with Secondary Guarantees
  (4) Indexed Universal Life
  (5) Indexed Universal Life with Secondary Guarantees
  (6) Indexed Life
  (7) Other Permanent Cash Value Life Insurance
  (8) Variable Life
  (9) Variable Universal Life
  (10) Miscellaneous Reserves

• B. Not subject to discretionary withdrawal or no cash value.
  (1) Term Policies without Cash Value
  (2) Accidental Death Benefits
  (3) Disability - Active Lives
  (4) Disability - Disabled Lives
  (5) Miscellaneous Reserves

• C. Total (Gross: Direct + Assumed).

• D. Reinsurance ceded.

• E. Total (net) = Total (Gross: Direct + Assumed) – Reinsurance ceded

Total (net) = Total (Gross: Direct + Assumed) – Reinsurance ceded
• F. Reconcile total life insurance reserves amount disclosed to the appropriate sections of the Aggregate Reserves for Life Policies and Contracts Exhibit (Exhibit 5) of the Life, Accident and Health Annual Statement and the corresponding lines in the Separate Accounts Statement. The reconciliation is a single presentation including all amounts from the sections on Individual Life Insurance and Group Life Insurance.

Illustration:

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

<table>
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<tr>
<th>Account Value</th>
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<th>Reserve</th>
</tr>
</thead>
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<td>A. General Account</td>
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<tr>
<td>(1) Subject to discretionary withdrawal, surrender values, or policy loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Term Policies with Cash Value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Universal Life</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Universal Life with Secondary Guarantees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Indexed Universal Life</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Indexed Universal Life with Secondary Guarantees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Indexed Life</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Other Permanent Cash Value Life Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>h. Variable Life</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Variable Universal Life</td>
<td></td>
<td></td>
</tr>
<tr>
<td>j. Miscellaneous Reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Not subject to discretionary withdrawal or no cash values</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Term Policies without Cash Value</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>b. Accidental Death Benefits</td>
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<td>XXX</td>
</tr>
<tr>
<td>c. Disability - Active Lives</td>
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<td>XXX</td>
</tr>
<tr>
<td>d. Disability - Disabled Lives</td>
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<tr>
<td>e. Miscellaneous Reserves</td>
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<td>XXX</td>
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<td>(3) Total (gross: direct + assumed)</td>
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<tr>
<td>(4) Reinsurance Ceded</td>
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<td>(5) Total (net) (3) - (4)</td>
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<tr>
<td>B. Separate Account with Guarantees</td>
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<td>(1) Subject to discretionary withdrawal, surrender values, or policy loans:</td>
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<tr>
<td>a. Term Policies with Cash Value</td>
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<td>b. Universal Life</td>
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<td>c. Universal Life with Secondary Guarantees</td>
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<td>d. Indexed Universal Life</td>
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<td>e. Indexed Universal Life with Secondary Guarantees</td>
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<tr>
<td>f. Indexed Life</td>
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<td>g. Other Permanent Cash Value Life Insurance</td>
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<td>i. Variable Universal Life</td>
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<td>c. Disability - Active Lives</td>
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<td>(3) Total (gross: direct + assumed)</td>
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<td>(4) Reinsurance Ceded</td>
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<td>(5) Total (net) (3) - (4)</td>
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### C. Separate Account Nonguaranteed

1. Subject to discretionary withdrawal, surrender values, or policy loans:
   - a. Term Policies with Cash Value
   - b. Universal Life
   - c. Universal Life with Secondary Guarantees
   - d. Indexed Universal Life
   - e. Indexed Universal Life with Secondary Guarantees
   - f. Indexed Life
   - g. Other Permanent Cash Value Life Insurance
   - h. Variable Life
   - i. Variable Universal Life
   - j. Miscellaneous Reserves

2. Not subject to discretionary withdrawal or no cash values:
   - a. Term Policies without Cash Value
   - b. Accidental Death Benefits
   - c. Disability - Active Lives
   - d. Disability - Disabled Lives
   - e. Miscellaneous Reserves

### General Account

<table>
<thead>
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<th>Account Value</th>
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### Separate Account—Guaranteed and Nonguaranteed

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### Table

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<th>Account Value</th>
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© 2019 National Association of Insurance Commissioners
THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION. Amounts reported in E–D to balance to the appropriate amounts from the Sections A, B and B–C reported above.

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<td>(2)</td>
<td>Exhibit 5, Accidental Death Benefits Section, Total (net)</td>
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<td>(3)</td>
<td>Exhibit 5, Disability – Active Lives Section, Total (net)</td>
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<td>(4)</td>
<td>Exhibit 5, Disability – Disabled Lives Section, Total (net)</td>
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<tr>
<td>(5)</td>
<td>Exhibit 5, Miscellaneous Reserves Section, Total (net)</td>
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<td>(6)</td>
<td>Subtotal</td>
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<td>E–D</td>
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<td>(7)</td>
<td>Exhibit 3, Line 0199999, Column 2</td>
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<td>(8)</td>
<td>Exhibit 3, Line 0499999, Column 2</td>
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<td>(9)</td>
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<td>(10)</td>
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<td>(11)</td>
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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

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<td>New Reporting Requirement [ ]</td>
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<td><a href="mailto:pallison@naic.org">pallison@naic.org</a></td>
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</tr>
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<td>LATF</td>
<td>Modifies Required Disclosure [ ]</td>
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<tr>
<td>NAME:</td>
<td>DISPOSITION</td>
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<td>[ ] Rejected For Public Comment</td>
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BLANK(S) TO WHICH PROPOSAL APPLIES

| [ X ] ANNUAL STATEMENT | [ ] QUARTERLY STATEMENT | [ ] INSTRUCTIONS | [ ] CROSSCHECKS |
| [ ] BLANK |
| [ X ] Life, Accident & Health/Fraternal |
| [ ] Property/Casualty |
| [ ] Health |
| [ ] Health (Life Supplement) |

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

Add a question regarding the Executive Summary of the PBR Actuarial Opinion to the Supplemental Exhibits and Schedules Interrogatories.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to add a question regarding the Executive Summary of the PBR Actuarial Opinion to the Supplemental Exhibits and Schedules Interrogatories to enable regulators to see if the reporting entity has filed it.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: __________________________________________________________________________

Other Comments: __________________________________________________________________________

** This section must be completed on all forms. Revised 7/18/2018
ANNUAL STATEMENT BLANK – LIFE/FRATERNAL

SUPPLEMENTAL EXHIBITS AND SCHEDULES
INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing unless specifically waived by the domiciliary state. However, in the event that your domiciliary state waives the filing requirement, your response of WAIVED to the specific interrogatory will be accepted in lieu of filing a “NONE” report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

Detail Eliminated To Conserve Space

The following supplemental reports are required to be filed as part of your annual statement filing if your company is engaged in the type of business covered by the supplement. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a “NONE” report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

Detail Eliminated To Conserve Space

APRIL FILING

41. Will the confidential Regulatory Asset Adequacy Issues Summary (RAAIS) required by the Valuation Manual be filed with the state of domicile by April 1? ....................................................
42. Will the Long-Term Care Experience Reporting Forms be filed with the state of domicile and the NAIC by April 1? ....................................................

Detail Eliminated To Conserve Space

48. Will the Supplemental Term and Universal Life Insurance Reinsurance Exhibit be filed with the state of domicile and the NAIC by April 1? ....................................................
49. Will the Variable Annuities Supplement be filed with the state of domicile and the NAIC by April 1? ....................................................
50. Will the Executive Summary of the PBR Actuarial Report be filed with the state of domicile by April 1? ....................................................

AUGUST FILING

50A. Will Management’s Report of Internal Control Over Financial Reporting be filed with the state of domicile by August 1? ....................................................

Explanation:

Bar code:

W:\National Meetings\2019\Fall\TF\App\BlanksWG\minutes\Att Two-D_2019-22BWG.doc
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

<table>
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</tr>
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<tbody>
<tr>
<td>DATE: 08/13/2019</td>
</tr>
</tbody>
</table>

CONTACT PERSON: ________________________

TELEPHONE: ________________________

EMAIL ADDRESS: ________________________

ON BEHALF OF: ________________________

NAME: Dale Bruggeman

TITLE: Chair SAPWG

AFFILIATION: Ohio Department of Insurance

ADDRESS: 50W. Town St., 3rd Fl., Ste. 300 Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item #: 2019-23BWG MOD

Year: 2020

Changes to Existing Reporting [ X ]

New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [ X ]

Modifies Required Disclosure [ ]

DISPOSITION

[ ] Rejected For Public Comment

[ ] Referred To Another NAIC Group

[ ] Received For Public Comment

[ X ] Adopted Date 10/22/2019

[ ] Rejected Date

[ ] Deferred Date

[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[ ] ANNUAL STATEMENT

[ X ] QUARTERLY STATEMENT

[ X ] INSTRUCTIONS

[ X ] CROSSCHECKS

[ X ] Life, Accident & Health/Fraternal

[ X ] Property/Casualty

[ X ] Health

[ ] Separate Accounts

[ ] Protected Cell

[ ] Health (Life Supplement)

Anticipated Effective Date: 1st Quarterly 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the instructions and illustration for Note 8 – Derivatives for disclosures adopted by SSAP No. 108—Derivative Hedging Variable Annuity Guarantees. Add instruction and blank page for Schedule DB, Part E to the quarterly statement.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to add a Quarterly Schedule DB, Part E and Note 8 – Derivatives changes included in the annual statement. The quarterly version of the schedule and notes disclosures were not included in 2019-14BWG adopted on 06/24/2019 but is required by the changes to SSAP No. 108—Derivative Hedging Variable Annuity Guarantees.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** This section must be completed on all forms.
QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

**SCHEDULE DB – PART E**

**Derivatives Hedging Variable Annuity Guarantees as of Current Quarter**

This schedule is specific for the derivatives and the hedging programs captured in SSAP No. 108.


**Column 1** – CDHS Identifier

- Provide a unique identifier for each Clearly Defined Hedging Strategy (CDHS) reported on this schedule (e.g., 001, 002, etc.). This identifier will also be used for reporting of the SSAP No. 108 CDHS in Column 32 of Schedule DB, Part A, Section 1; Column 31 of Schedule DB, Part A, Section 2; Column 30 of Schedule DB, Part B, Section 1; and Column 26 of Schedule DB, Part B, Section 2.

**Column 2** – CDHS Description

- Provide a description for each uniquely identified CDHS.

**Column 3** – Prior Fair Value in Full Contract Cash Flows Attributed to Interest Rates

- Prior period full contract fair value. This reflects all product cash flows, per SSAP No. 108.

**Column 4** – Ending Fair Value in Full Contract Cash Flows Attributed to Interest Rates

- Current period full contract fair value. This reflects all product cash flows, per SSAP No. 108.

**Column 5** – Fair Value Gains (Loss) in Full Contract Cash Flows Attributed to Interest Rates

- Change in full contract fair value. This reflects all product cash flows, per SSAP No. 108.

**Column 6** – Fair Value Gain (Loss) in Hedged Item Attributed to Hedged Risk

- Change in fair value attributable to hedged risk per SSAP No. 108.

**Column 7** – Current Year Increase (Decrease) in VM-21 Liability

- VM-21 liability increase (decrease) from beginning of period to end of period.

**Column 8** – Current Year Increase (Decrease) in VM-21 Liability Attributed to Interest Rates

- VM-21 liability increase (decrease) attributable to interest rate movements.

**Column 9** – Change in the Hedged Item Attributed to Hedged Risk Percentage

- Change in fair value attributed to hedged risk as a percentage of the change in full contract fair value, per SSAP No. 108.

**Column 10** – Current Year Increase (Decrease) in VM-21 Liability Attributed to Hedged Risk

- VM-21 liability increase (decrease) attributed to hedged risk.
<table>
<thead>
<tr>
<th>Column</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Prior Deferred Balance</td>
</tr>
<tr>
<td></td>
<td>Specific CDHS deferred liability (asset) balance at end of prior reporting period.</td>
</tr>
<tr>
<td>12</td>
<td>Current Year Fair Value Fluctuation of the Hedge Instruments</td>
</tr>
<tr>
<td></td>
<td>Current year total return Fair Value fluctuations in the hedging instruments, per SSAP 108.</td>
</tr>
<tr>
<td>13</td>
<td>Current Year Natural Offset to VM-21 Liability</td>
</tr>
<tr>
<td></td>
<td>Current year hedging instruments' total return Fair Value fluctuations that offset the current period change in the designated portion of the VM-21 liability.</td>
</tr>
<tr>
<td>14</td>
<td>Hedging Instruments’ Current Fair Value Fluctuation Not Attributed to Hedged Risk</td>
</tr>
<tr>
<td></td>
<td>Current year hedging instruments' total return Fair Value fluctuations not attributable to hedged risk, per SSAP 108.</td>
</tr>
<tr>
<td>15</td>
<td>Hedge Gain (Loss) in Current Year Deferred Adjustment</td>
</tr>
<tr>
<td></td>
<td>Current year hedging instruments' total return Fair Value fluctuations that do not offset the current period change in the designated portion of the VM-21 liability (recognized as deferred liabilities/(assets), per SSAP 108).</td>
</tr>
<tr>
<td>16</td>
<td>Current Year Prescribed Deferred Amortization</td>
</tr>
<tr>
<td></td>
<td>Current year deferred (liability)/asset amortization into realized gains/losses (straight line over a period not to exceed 10 years, per SSAP 108).</td>
</tr>
<tr>
<td>17</td>
<td>Current Year Additional Deferred Amortization</td>
</tr>
<tr>
<td></td>
<td>Current year deferred (liability)/asset accelerated amortization elected by the reporting entity, per SSAP 108.</td>
</tr>
<tr>
<td>18</td>
<td>Current Year Total Deferred Amortization</td>
</tr>
<tr>
<td></td>
<td>Total current year deferred (liability)/asset amortization into realized gains/losses.</td>
</tr>
<tr>
<td>19</td>
<td>Ending Deferred Balance</td>
</tr>
<tr>
<td></td>
<td>Specific CDHS Deferred Liability (Asset) balance at end of current reporting period.</td>
</tr>
</tbody>
</table>
NOTES TO FINANCIAL STATEMENTS

The interim financial information shall include disclosures sufficient to make the information presented not misleading. It may be presumed that the users of the interim financial information have read or have access to the annual statement for the preceding period and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnote disclosure that would substantially duplicate the disclosure contained in the most recent annual statement or audited financial statements, such as a statement of significant accounting policies and practices, details of accounts that have not changed significantly in amount or composition since the end of the most recently completed fiscal year, may be omitted but the footnote number and annotation such as “no change” should be included. However, provide disclosure for annual Note 1A, 1C(2), 1C(6), 1D, 5D, 5E(3)b, 5F, 5G, 5H, 5I, 5M(2), 5M(3), 5N, 8A(8)H, 8B(2)a, 8B(2)b, 8B(2)c, 11B, 12A(4), 17B(2), 17B(4)a, 17B(4)b, 17C, 20, 24E and 25 in all quarters; and all other Notes where events subsequent to the end of the most recent fiscal year have occurred that have a material impact on the reporting entity. Disclosures shall encompass, for example, significant changes since the end of the period reported on the last annual statement in such items as statutory accounting principles and practices; estimates inherent in the preparation of financial statements; status of long term contracts; capitalization including significant new borrowings or modifications of existing financial arrangements; and the reporting entity resulting from business combinations or dispositions. Notwithstanding the above, where material noninsurance contingencies exist, disclosure of such matters shall be provided even though a significant change since year-end may not have occurred. If the reporting entity has changed the accounting policies since the end of its preceding year, the changes shall be disclosed in the quarterly financial statements. Information should be reported for current year-to-date.

8. Derivative Instruments

Instruction:

A. Derivatives under SSAP No. 86—Derivatives

Disclose the following information by category of derivative financial instrument:

H.(8) Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Include the aggregate fair value of derivative instruments with financing premiums, excluding the impact of the deferred or financing premiums.

B. Derivatives under SSAP No. 108—Derivative Hedging Variable Annuity Guarantees (Life/Fraternal Only)

(2) Recognition of gains/losses and deferred assets and liabilities

Provide the following:

Schedule showing the current period amortization, including any accelerated amortization elected by the reporting entity, and the future scheduled amortization of the deferred assets and deferred liabilities.

Information on derivative instruments that were originally captured in SSAP No. 108 and repurposed to be within scope of SSAP No. 86 (or vice versa). If the reporting entity has repurposed derivatives, information on the derivative to reconcile the fair value (realized/unrealize gains or losses) is required. (These disclosures should only be included if open derivatives were reclassified between SSAP No. 86 and SSAP No. 108. It is expected to be uncommon.)
The amortization of deferred assets and liabilities shall be completed on an annual basis only. Quarterly changes (resulting in new amortization projections) from the recognition of new deferred assets/liabilities shall be shown in the quarterly completion of Schedule DB, Part E.

Illustration:

A. Derivatives under SSAP No. 86—Derivatives

(1) Derivatives under SSAP No. 86—Derivatives

(1)a.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Derivative Premium Payments Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>a1. 2020</td>
<td>$ ..................................</td>
</tr>
<tr>
<td>b2. 2021</td>
<td>.....................................</td>
</tr>
<tr>
<td>e3. 2022</td>
<td>.....................................</td>
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<tr>
<td>d4. 2023</td>
<td>.....................................</td>
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<tr>
<td>e5. Thereafter</td>
<td>.....................................</td>
</tr>
<tr>
<td>f6. Total Future Settled Premiums</td>
<td>$ ..................................</td>
</tr>
</tbody>
</table>

(2)b.

<table>
<thead>
<tr>
<th>Undiscounted Future Premium Commitments</th>
<th>Derivative Fair Value with Premium Commitments (Reported on DB)</th>
<th>Derivative Fair Value Excluding Impact of Future Settled Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>a1. Prior Year $ .......................</td>
<td>$ ........................</td>
<td>$ ........................</td>
</tr>
<tr>
<td>b2. Current Year $ ........................</td>
<td>$ ........................</td>
<td>$ ........................</td>
</tr>
</tbody>
</table>

B. Derivatives under SSAP No. 108—Derivative Hedging Variable Annuity Guarantees

(2) Recognition of gains/losses and deferred assets and liabilities

a. Scheduled Amortization

<table>
<thead>
<tr>
<th>Amortization Year</th>
<th>Deferred Assets</th>
<th>Deferred Liabilities</th>
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</thead>
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<tr>
<td>1. 2020</td>
<td>..................</td>
<td>..................</td>
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<tr>
<td>2. 2021</td>
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<td>10. 2029</td>
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<tr>
<td>11. Total</td>
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</table>

b. Total Deferred Balance * ..................................................

* Should agree to Column 1819 of Schedule DB, Part E

c. Reconciliation of Amortization:

1. Prior Year Total Deferred Balance $ ............................

© 2019 National Association of Insurance Commissioners 5
2. Current Year Amortization $ ..............................
3. Current Year Deferred Recognition $ ..............................
4. Ending Deferred Balance [1/(2+3)] $ ..............................
## SCHEDULE DB – PART E

### Derivatives Hedging Variable Annuity Guarantees as of Current Quarter

This schedule is specific for the derivatives and the hedging programs captured in SSAP No. 108

<table>
<thead>
<tr>
<th>Identifier</th>
<th>Description</th>
<th>Prior Fair Value in Full Contract Cash Flows Attributed to Interest Rates</th>
<th>Prior Fair Value in Full Contract Cash Flows Attributed to Hedged Risk</th>
<th>Current Year Increase (Decrease) in VM-21 Liability Attributed to Interest Rates</th>
<th>Hedging Instruments’ Current Fair Value Fluctuation Not Attributed to Hedged Risk</th>
<th>Hedge Gain (Loss) in Current Year Deferred Adjustment</th>
<th>Current Year Additional Deferred Amortization</th>
<th>Current Year Total Deferred Amortization</th>
<th>Ending Deferred Balance</th>
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</table>

**Note:** The table is not fully populated. The fields marked with red represent the columns that are not shown in the table. The fields marked with black represent the columns that are shown in the table.
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

| CONTACT PERSON: | Pat Allison |
| TELEPHONE: | 816-783-8528 |
| EMAIL ADDRESS: | pallison@naic.org |
| ON BEHALF OF: | Life Actuarial (A) Task Force |
| NAME: | Mike Boerner, Chair |
| TITLE: | |
| AFFILIATION: | |
| ADDRESS: | |

FOR NAIC USE ONLY

| Agenda Item # | 2019-24BWG |
| Year | 2020 |
| Changes to Existing Reporting | [ X ] |
| New Reporting Requirement | [ ] |

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

| No Impact | [ X ] |
| Modifies Required Disclosure | [ ] |

DISPOSITION

| [ ] Rejected For Public Comment |
| [ ] Referred To Another NAIC Group |
| [ ] Received For Public Comment |
| [ X ] Adopted Date 10/22/2019 |
| [ ] Rejected Date |
| [ ] Deferred Date |
| [ ] Other (Specify) |

BLANK(S) TO WHICH PROPOSAL APPLIES

| [ X ] ANNUAL STATEMENT |
| [ X ] QUARTERLY STATEMENT |
| [ X ] Life, Accident & Health/Fraternal |
| [ X ] Property/Casualty |
| [ X ] Health |
| [ X ] INSTRUCTIONS |
| [ ] SEPARATE ACCOUNTS |
| [ ] PROTECTED CELL |
| [ X ] Health (Life Supplement) |
| [ ] CROSSCHECKS |
| [ ] TITLE |
| [ ] OTHER |

Anticipated Effective Date: 1st Quarter 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

Add a Life Experience Data Contact to the Electronic Jurat page for Life/Fraternal companies only. Health, Property and Title are included in the proposal due to the Jurat instructions being uniform for all statement types.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

Under the Standard Valuation Law (SVL) and supporting Valuation Manual (VM) included in each state’s laws, NAIC serves as the data collection agent for various studies of data (e.g., mortality experience data). NAIC staff need a contact person from each legal entity life insurance company to facilitate communication regarding these data studies and submission of the data to the NAIC.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** This section must be completed on all forms.
ANNUAL AND QUARTERLY INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

JURAT PAGE

To be filed in electronic format only:

Life Insurance Policy Locator Contact (Not applicable to Property and Title companies)

Name

List person able to respond to calls regarding locating policies on lost or forgotten life insurance policies.

Address

May be a P.O. Box and the associated ZIP code.

Telephone Number

Telephone number should include area code and extension.

Email Address

Email address of the policy locator contact person as described above.

Life Experience Data Contact (Life/Fraternal companies only)

Name

List the name of the person able to facilitate communication regarding submission of company experience data to the NAIC (e.g., mortality experience data) as required by the Standard Valuation Law (SVL) and its supporting Valuation Manual (VM) included in each state’s laws.

Address

May be a P.O. Box and the associated ZIP code.

Telephone Number

Telephone number should include area code and extension.

Email Address

Email address of the life experience data contact person as described above.
Statement Type:
H = Health; L/F = Life/Fraternal Combined; P/C = Property/Casualty; SA = Separate Accounts; T = Title

<table>
<thead>
<tr>
<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
<th>Statement Type</th>
<th>Filing Type</th>
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</thead>
<tbody>
<tr>
<td>2019</td>
<td>General Interrogatories, Part 2</td>
<td><strong>CHANGE TO BLANK</strong>&lt;br&gt;The options for answering Questions 32.1 and 32.2 are reversed.&lt;br&gt;32.1 should be Yes or No.&lt;br&gt;32.2 should be Yes, No or N/A.</td>
<td>L/F</td>
<td>Annual</td>
</tr>
<tr>
<td>2019</td>
<td>Notes to Financial Statement</td>
<td><strong>CHANGE TO INSTRUCTIONS</strong>&lt;br&gt;Change the Schedule DB, Part E column reference in Note 8B(2)b crosscheck in the illustration.&lt;br&gt;b. Total Deferred Balance * ..........................................&lt;br&gt;* Should agree to Column 4819 of Schedule DB, Part E</td>
<td>H, L/F, P/C, T</td>
<td>Annual</td>
</tr>
<tr>
<td>2019</td>
<td>Schedule DB, Part E</td>
<td><strong>CHANGE TO BLANK</strong>&lt;br&gt;Column 9, Total Line should be XXX.</td>
<td>H, L/F, P/C, T, SA</td>
<td>Annual, Quarterly</td>
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<td>Description</td>
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<tr>
<td>2019</td>
<td>Schedule D, Part 1</td>
<td><strong>CHANGE TO INSTRUCTIONS</strong></td>
<td>H, L/F, P/C, T</td>
<td>Annual</td>
</tr>
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<td>Add new Administrative Symbols to the List.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td><strong>Column 6</strong> – NAIC Designation and Administrative Symbol</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Provide the appropriate NAIC designation (1 through 6) and administrative</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>symbol combination for each security. The list of valid administrative</td>
<td></td>
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<td></td>
<td></td>
<td>symbols is shown below.</td>
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<tr>
<td></td>
<td></td>
<td>The listing of valid NAIC designation and administrative symbol combinations</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>can be found on the NAIC’s website for the Securities Valuation Office</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>(<a href="http://www.naic.org/svo.htm">www.naic.org/svo.htm</a>).</td>
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<td>For Bond Mutual Funds – as identified by the SVO, enter 1.</td>
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<td>Following are valid administrative symbols for bonds. Refer to the</td>
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<td>* Purposes and Procedures Manual of the NAIC Investment Analysis Office for</td>
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<td>S Additional or other non-payment risk</td>
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<td>SYE Additional or other non-payment risk - Year-end carry over</td>
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<td>FE Filing Exempt</td>
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<td>FM Financially Modeled RMBS/CMBS subject to SSAP 43R</td>
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<td>YE Year-end carry over</td>
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<td>IF Initial filing</td>
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<td>PL Private Letter Rating</td>
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<td>PLGI Private Letter Rating – reported on General Interrogatory</td>
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<td>RT Regulatory Transaction</td>
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<td>RTS Regulatory Transaction - SVO Reviewed</td>
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<td>RTSYE Regulatory Transaction - SVO Reviewed - Year-end carry over</td>
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<td>Z Insurer self-designated</td>
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<td>GI General Interrogatory</td>
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<td>F Sub-paragraph D Company – insurer self-designated</td>
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<td>* Limited to NAIC Designations 6</td>
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<td>2019</td>
<td>Schedule D, Part 2, Section 1</td>
<td><strong>CHANGE TO INSTRUCTIONS</strong>&lt;br&gt;Add new Administrative Symbols to the List.&lt;br&gt;&lt;br&gt;Column 20 – NAIC Designation and Administrative Symbol&lt;br&gt;Provide the appropriate combination of NAIC designation (1 through 6) and administrative symbol for each security. The list of valid administrative symbols is shown below.&lt;br&gt;&lt;br&gt;The listing of valid NAIC designation and administrative symbol combinations can be found on the NAIC’s website for the Securities Valuation Office (<a href="http://www.naic.org/svo.htm">www.naic.org/svo.htm</a>).&lt;br&gt;&lt;br&gt;Exchange Traded Funds should be reported as perpetual securities.&lt;br&gt;&lt;br&gt;Following are valid administrative symbols for preferred stock. Refer to the <em>Purpose and Procedures Manual of the NAIC Investment Analysis Office</em> for the application of these symbols:&lt;br&gt;&lt;br&gt;S   Additional or other non-payment risk assigned by the SVO or SSG&lt;br&gt;SYE Additional or other non-payment risk - Year-end carry over&lt;br&gt;FE   Filing Exempt assigned by the SVO&lt;br&gt;YE   Year-end carry over assigned by the SVO&lt;br&gt;IF   Initial filing - insurer reported designation with Admin Symbol assigned by the SVO&lt;br&gt;PL   Private Letter Rating assigned by the SVO&lt;br&gt;PLGI Private Letter Rating – insurer assigned and reported on General Interrogatory&lt;br&gt;RT   Regulatory Transaction&lt;br&gt;RTS   Regulatory Transaction - SVO Reviewed&lt;br&gt;RTIF Regulatory Transaction - Initial Filing Submitted to SVO&lt;br&gt;RTSYE Regulatory Transaction - SVO Reviewed - Year-end carry over&lt;br&gt;Z   Insurer assigned and reported subject to limitation&lt;br&gt;GI   Insurer assigned and reported on General Interrogatory&lt;br&gt;F   Sub-paragraph D Company – insurer self-designated&lt;br&gt;*   Limited to NAIC Designations 6 – insurer assigned&lt;br&gt;</td>
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<th>Statement Type</th>
<th>Filing Type</th>
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<td>H, L/F, P/C, T</td>
<td>Annual</td>
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<td>Effective</td>
<td>Table Name</td>
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<td>Schedule D, Part 3</td>
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<td>GI</td>
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</table>

Preferred Stock:

Following are valid administrative symbols for preferred stock. Refer to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for the application of these symbols.

- **S** Additional or other non-payment risk
- **SYE** Additional or other non-payment risk - Year-end carry over
- **FE** Filing Exempt
- **YE** Year-end carry over
- **IF** Initial filing
- **PL** Private Letter Rating
- **PLGI** Private Letter Rating – General Interrogatory
- **RT** Regulatory Transaction
- **RTIF** Regulatory Transaction - Initial Filing Submitted to SVO
- **RTS** Regulatory Transaction - SVO Reviewed
- **RTSYE** Regulatory Transaction - SVO Reviewed - Year-end carry over
- **Z** Insurer self-designated
- **GI** General Interrogatory
- **F** Sub-paragraph D Company – insurer self-designated
- ***** Limited to NAIC Designations 6

Common Stock:

For securities reported on Line 9499999 (Mutual Funds) provide the appropriate NAIC designation (1 through 6) as assigned by the Securities Valuation Office. For all other common stock, the NAIC designation and administrative symbol field should be left blank.
<table>
<thead>
<tr>
<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
<th>Statement Type</th>
<th>Filing Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>Schedule D, Part 4</td>
<td>CHANGE TO INSTRUCTIONS</td>
<td>H, L/F, P/C, T</td>
<td>Quarterly</td>
</tr>
</tbody>
</table>

Add new Administrative Symbols to the List.

Column 22 – NAIC Designation and Administrative Symbol

Provide the appropriate combination of the NAIC designation (1 through 6) and administrative symbol (see below) at date of disposal for each security shown. The list of valid administrative symbols is shown below. Where multiple disposal transactions occurred for the same CUSIP, and those transactions are summarized on one line, enter the appropriate combination of NAIC designation and administrative symbol for the last disposal using the last available designation.

The listing of valid NAIC designation and administrative symbol combinations can be found on the NAIC’s website for the Securities Valuation Office (www.naic.org/svo.htm).

Long Term Bond:

For Bond Mutual Funds – as Identified by the SVO, enter 1.

Exchange Traded Funds – as Identified by the SVO should be reported as perpetual securities.

Following are valid administrative symbols for bonds. Refer to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for the application of these symbols.

- S: Additional or other non-payment risk
- SYE: Additional or other non-payment risk - Year-end carry over
- FE: Filing Exempt
- FM: Financially Modeled RMBS/CMBS subject to SSAP 43
- YE: Year-end carry over
- IF: Initial filing
- PL: Private Letter Rating
- PLGI: Private Letter Rating – General Interrogatory
- RT: Regulatory Transaction
- RTS: Regulatory Transaction - SVO Reviewed
<table>
<thead>
<tr>
<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
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<tbody>
<tr>
<td></td>
<td>RTIF</td>
<td>Regulatory Transaction - Initial Filing Submitted to SVO</td>
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<tr>
<td></td>
<td>RTSYE</td>
<td>Regulatory Transaction - SVO Reviewed - Year-end carry over</td>
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<tr>
<td>Z</td>
<td>Insurer self-designated</td>
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<tr>
<td>Gl</td>
<td>General Interrogatory</td>
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<tr>
<td>F</td>
<td>Sub-paragraph D Company – insurer self-designated</td>
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<tr>
<td>*</td>
<td>Limited to NAIC Designations 6</td>
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</table>

Preferred Stock:

Following are valid administrative symbols for preferred stock.

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Description</th>
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<tbody>
<tr>
<td>S</td>
<td>Additional or other non-payment risk</td>
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<tr>
<td>SYE</td>
<td>Additional or other non-payment risk - Year-end carry over</td>
</tr>
<tr>
<td>FE</td>
<td>Filing Exempt</td>
</tr>
<tr>
<td>YE</td>
<td>Year-end carry over</td>
</tr>
<tr>
<td>IF</td>
<td>Initial filing</td>
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<tr>
<td>PL</td>
<td>Private Letter Rating</td>
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<tr>
<td>PLGI</td>
<td>Private Letter Rating – General Interrogatory</td>
</tr>
<tr>
<td>RT</td>
<td>Regulatory Transaction</td>
</tr>
<tr>
<td>RTS</td>
<td>Regulatory Transaction - SVO Reviewed</td>
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<tr>
<td>RTIF</td>
<td>Regulatory Transaction - Initial Filing Submitted to SVO</td>
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<tr>
<td>RTSYE</td>
<td>Regulatory Transaction - SVO Reviewed - Year-end carry over</td>
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<tr>
<td>Z</td>
<td>Insurer self-designated</td>
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<td>Gl</td>
<td>General Interrogatory</td>
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<tr>
<td>F</td>
<td>Sub-paragraph D Company – insurer self-designated</td>
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<tr>
<td>*</td>
<td>Limited to NAIC Designations 6</td>
</tr>
</tbody>
</table>

Common Stock:

For securities reported on Line 9499999 (Mutual Funds) provide the appropriate NAIC designation (1 through 6) as assigned by the Securities Valuation Office. For all other common stock, the NAIC designation and administrative symbol field should be left blank.
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<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
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<tbody>
<tr>
<td>2020</td>
<td>Schedule BA, Part 2</td>
<td><strong>CHANGE TO INSTRUCTIONS</strong></td>
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<td>Add new Administrative Symbols to the List.</td>
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<td></td>
<td>Column 6 – NAIC Designation and Administrative Symbol</td>
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<td>This column must be completed for those investments included on Lines 0799999 and 1599999.</td>
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<td>For Schedule BA investments with the underlying characteristics of a bond or a preferred stock instrument, insert the appropriate combination of the NAIC designation (1 through 6) and administrative symbol. The list of valid administrative symbols is shown below.</td>
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<td>The listing of valid NAIC designation and administrative symbol combinations can be found on the NAIC’s website for the Securities Valuation Office (<a href="http://www.naic.org/svo.htm">www.naic.org/svo.htm</a>).</td>
</tr>
<tr>
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<td>Following are valid administrative symbols for bonds and preferred stock. Refer to the Purposes and Procedures Manual of the NAIC Investment Analysis Office for the application of these symbols.</td>
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<tr>
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<td>S Additional or other non-payment risk</td>
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<td>SYE Additional or other non-payment risk - Year-end carry over</td>
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<td>YE Year-end carry over</td>
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<td>FE Filing Exempt</td>
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<td>RT Regulatory Transaction</td>
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<td>RTS Regulatory Transaction - SVO Reviewed</td>
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<td>RTIF Regulatory Transaction - Initial Filing Submitted to SVO</td>
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<td>RTSYE Regulatory Transaction - SVO Reviewed - Year-end carry over</td>
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<td>F Sub-paragraph D Company – insurer self-designated</td>
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<td>The NAIC designation and administrative symbol field should be left blank for those Schedule BA investments which have not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the Purposes and Procedures Manual of the NAIC Investment Analysis Office.</td>
</tr>
</tbody>
</table>
The Accounting Practices and Procedures (E) Task Force met via conference call, Aug. 22, 2019. The following Task Force members participated: Kent Sullivan, Chair, represented by Jamie Walker (TX); Jeff Rude, Vice Chair, represented by Linda Johnson (WY); Jim L. Ridling represented by Richard Ford and Sheila Travis (AL); Allen W. Kerr represented by Mel Anderson (AR); Ricardo Lara represented by Kim Hudson and Susan Bernard (CA); Andrew N. Mais represented by William Arfánis and Wanchin Chou (CT); Trinidad Navarro represented by Tom Hudson and Rylynn Brown (DE); David Altmaier represented by Robert Ridenour (FL); Dafne M. Shimizu represented by Alice Cruz (GU); Doug Ommen represented by Daniel Mathis and Jim Armstrong (IA); Stephen W. Robertson represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Nancy G. Atkins represented by Sandy Batts (KY); James J. Donelon represented by Rich Piazza and Stewart Guerin (LA); Gary Anderson represented by John Turchi (MA); Eric A. Cioppa represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver (MI); Steve Kelley represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Mike Chaney represented by David Browning (MS); Jon Godfread represented by Matt Fischer (ND); Bruce R. Ramge represented by Justin Schrader and Lindsay Crawford (NE); John Elias represented by Doug Bartlett and Patricia Gosselin (NH); Marlene Caride represented by Steve Kerner (NJ); John G. Franchini represented by Leatrice Geckler (NM); Linda A. Lacewell represented by Christine Grolton (NY); Jillian Froment represented by Dale Bruggeman (OH); Glen Mulready represented by Joel Sander (OK); Jessica Altman represented by Joe DiMemmo (PA); Larry Deiter represented by Johanna Nickelson (SD); Carter Lawrence represented by Hui Wattanakolpant (TN); Todd E. Kiser represented by Jake Garn (UT); Scott A. White represented by Joe DiMemmo (PA); Mark Afable represented by Amy Malm (WI); and James A. Dodrill represented by Jamie Taylor (WV).

1. **Adopted its 2020 Proposed Charges**

Ms. Walker directed the Task Force to the 2020 proposed charges of the Task Force and its working groups which were exposed at the Summer National Meeting. Robin Marcotte (NAIC) stated that the charges of Blanks (E) Working Group and the Task Force are proposed to remain unchanged. She stated that three of the Statutory Accounting Principles (E) Working Group charges, which were recommended to the Financial Condition (E) Committee by the Variable Annuites Issues (E) Working Group, are proposed for deletion. She stated that one of the charges proposed for deletion was completed with the adoption of Statement of Statutory Accounting Principle (SSAP) No. 108—Derivatives Hedging Variable Annuity Guarantees effective Jan. 1, 2020, with early adoption Jan. 1, 2019, permitted. She stated that a second charge to develop a change in valuation basis guidance for the implementation of the Variable Annuities (VA) Framework was completed with the change in valuation basis guidance, which was added to SSAP No. 51R—Life Contracts, which specifically notes Actuarial Guideline XLIII—CARVM for Variable Annuities (AG 43).

Ms. Marcotte stated that the Statutory Accounting Principles (E) Working Group has recommended to the Task Force that the charge to develop a model guideline to exceed state investment limitations for hedges be deleted. She stated that after a review of annual statement information on the extent of derivative investments, the Working Group does not believe such a model guideline is necessary. She stated that no comments were received by the Task Force on the exposed charges; therefore, the exposed charges are recommended for adoption.

Mr. Garn made a motion, seconded by Mr. Bruggeman, to adopt the Task Force’s 2020 proposed charges (see NAIC Proceedings – Fall 2019, Financial Condition (E) Committee, Attachment One-A)


Mr. Garn stated that the Blanks (E) Working Group met Aug. 20. He stated that the Working Group adopted its July 2 and June 24 minutes (Note that the actions from those meetings were adopted by the Task Force at the Summer National Meeting). He stated that the Working Group adopted the following two previously exposed proposals:
a. 2019-18BWG – Add an NAIC Designation Modifier to the “NAIC Designation” column for Schedule D, Schedule DL and Schedule BA to accommodate the NAIC Designation Category granularity framework adopted by the Valuation of Securities (E) Task Force with an annual 2020 effective date.

b. 2019-20BWG – Add “Qualification Documentation” to the Property and Casualty Actuarial Opinion instructions, as requested by the Casualty Actuarial and Statistical (C) Task Force and the Executive (EX) Committee, requiring the Appointed Actuary to maintain workpapers explaining how the actuary meets the definition of “Qualified Actuary.” The proposal provides a new objective definition of “Qualified Actuary” and the results of an assessment of actuarial educational syllabi in an “Accepted Actuarial Designation” section. The changes of the Task Force were adopted on June 11, and the additional changes were adopted by the Executive (EX) Committee on June 25.

Mr. Garn stated that proposal 2019-19BWG on unaffiliated certificates of deposit was withdrawn to allow NAIC staff to work with industry on a new proposal in the future. He said the Working Group deferred revisions to its procedures to allow for future discussion.

Mr. Garn said the Working Group exposed three proposals for a public comment period ending Oct. 8, and it adopted the editorial listing.

Mr. Garn stated that agenda item 2019-20BWG on the actuarial qualifications was adopted, but it was adopted with four no votes and one abstention during the Working Group’s Aug. 20 conference call. Ms. Walker stated that given that proposal 2019-20BWG on the actuarial qualification documentation had a split vote and some discussion during the Working Group’s Aug. 20 call, the Task Force will take a separate vote on that item.

Mr. Garn made a motion, seconded by Mr. Hudson to adopt the report of the Blanks (E) Working Group except for agenda item 2019-20BWG which would have a separate vote (See Attachment Two-B).

3. Adopted Agenda Item 2019-20BWG

Ms. Walker called on Mr. Piazza, Chief Actuary in Louisiana, to introduce the proposal. Mr. Piazza noted that he previously chaired the Casualty Actuarial and Statistical (C) Task Force for seven years and vice-chaired it for three years. He noted that the proposed change to the Property/Casualty (P/C) Instructions sets forth a workable, objective and principle-based definition of a P/C qualified actuary, and it recognizes the Society of Actuaries’ (SOA) general insurance track, along with the Casualty Actuarial Society (CAS), as meeting the minimum basic education requirement for a qualified actuary.

Mr. Piazza said key elements of the proposal include that it provides guidance developed with a consultant to objectively define the qualified actuary and be transparent about what state insurance regulators want from an appointed actuary. He stated that the role of the appointed actuary is probably the most important role actuaries serve in the state insurance regulator’s eyes. He said state insurance regulators that review reserve adequacy for company solvency in order to protect the interests of their state’s consumers rely heavily upon the accuracy of the appointed actuary’s reserve assessment and information contained in the appointed actuary’s Statement of Actuarial Opinion (SAO). Mr. Piazza said the proposal adds the definition of qualified actuary which retains the CAS designations and adds the SOA general insurance track.

Mr. Piazza said the proposal also adds that the qualification documentation is the primary addition to the instructions. He said the documentation under existing qualification requirements should already exist, and it should not be a burden to any actuary. He stated that the proposal includes what is called qualification documentation, which effectively pulls together an actuary’s resumé and already required continuing education documentation as a workpaper so state insurance regulators can view that information if they wish and companies can use it in their governance review of the appointed actuary.

Mr. Piazza said the proposal has an effective date of year-end 2019, and the effective date was agreed to by all three actuarial organizations. He noted that the proposal has little impact on any actuary currently appointed, and all former Appointed Actuaries remain “qualified” under the new definition, with the only impact being that they have to document their qualifications.

Mr. Piazza then noted that he would be providing background on the project that led to the proposal. He said the project began almost seven years ago with the Casualty Actuarial and Statistical (C) Task Force, and it has been proceeding almost non-stop
since then. He said the Task Force was asked to evaluate the SOA’s general insurance track and determine if it should be accepted by state insurance regulators, just as the CAS’s membership is accepted. He stated that both of these organizations have been educating, testing and credentialing actuaries for decades, if not the past century, and both are really good at what they do for the actuarial profession.

Mr. Piazza noted that when the Casualty Actuarial and Statistical (C) Task Force was first asked to determine if the SOA’s general insurance track met minimum basic education expectations, there was no established standard to compare an education track against. He said there was some reluctance among the three actuarial organizations to take a direct role in creating an education standard suitable for a minimum basic education evaluation. He said the American Academy of Actuaries (Academy) was asked and declined to undertake the project, though it did say it would change its qualification requirements in accordance with revised instructions from the state insurance regulators. He said that this is why the Task Force took on this task itself.

Mr. Piazza noted that the Casualty Actuarial and Statistical (C) Task Force was a divided group, discussing at least four ways to tackle this task on how to address the SOA’s general insurance track with respect to the qualified actuary, but it could not reach an agreement on a path forward. He said after many open discussions, the Task Force requested outside help. He said the request went up to the Property and Casualty Insurance (C) Committee and then up to the Executive (EX) Committee. He said the Executive (EX) Committee first hired a consultant with the goal of evaluating whether any actuarial educational track meets industry standards to produce qualified actuaries.

Mr. Piazza noted that the consultant was asked to guide subject matter experts to define what an appointed actuary should know and do to be an appointed actuary. He said this set the basis for the educational standards developed by expert actuaries and began the work requested by the Executive (EX) Committee to develop an objective qualified actuary definition. He noted that over 30 subject matter experts nominated by the three actuarial organizations to inform the consultant and the entire process. He said this project resulted in the proposal which defines a qualified actuary and recognizes the SOA’s track as meeting the minimum basic education requirement.

Mr. Piazza stated that the work starting seven years ago through today has not been performed in a vacuum, and the proposed instruction changes were vetted many times since the beginning of this project. He said in the past year-and-a-half, there were four exposures and one hearing. He noted that input was considered from interested parties, the Casualty Actuarial and Statistical (C) Task Force, and commissioners themselves. He noted that similar to other large, multi-faceted NAIC projects, there was a bit of compromise in the development of the proposal before you, and not all participants in the development process are 100% satisfied with the result. He said there was consensus by the respective groups.

Mr. Piazza stated that the commissioners at different levels discussed this proposal, and policy decisions were made culminating in a request from the Executive (EX) Committee for the Blanks (E) Working Group to implement the proposal before you. The proposal passed from the Blanks (E) Working Group on Aug. 20. He said the proposal clearly meets the Executive (EX) Committee’s objective at the start of the project by setting forth a workable, objective and principle-based “qualified actuary” definition that includes both the SOA and CAS basic education tracks found to meet the minimum basic education standard for an appointed actuary.

Mr. Chou noted appreciation for the hard work and time spent on the proposal. He indicated that his remarks were to better serve the actuarial professional for higher professional standards, and to help the insurance industry effectively, the qualified actuary proposal needs to be reviewed more and refined properly. He said it is better to be late than incomplete. He stated that the Academy worked well with volunteers from both the CAS and the SOA to provide professional standards and services for several decades. He noted that while they were not opposed to most of the good work in the proposal, there were concerns that the proposal does not mention that the Academy membership will cause some confusion in three areas.

Mr. Chou noted that excluding the requirement for Academy membership would continue inconsistency for the different annual statement blanks requirements between life, P/C and health. He noted that the P/C annual statement blank mentioned CAS membership only due to aggressive SOA merger talk. He noted that there are unresolved disagreements between the two societies on educational requirements.

Mr. Chou noted that adding a requirement to have Academy membership would not cause an issue with fees in Connecticut as all appointed actuaries are currently Academy members. He said there was not a good justification for the costs and benefits when the Executive (EX) Committee’s ad hoc group decided to delete the requirement for Academy membership.
Mr. Chou said his last point was being provided on behalf of Ralph Blanchard (Travelers) who could not be present during this conference call. He said Mr. Blanchard had concerns that omitting the requirement for Academy membership for actuaries seeking review under the exception process would add liability exposure to the Casualty Practice Council if it is the group to review non-Academy members.

Mr. Chou said the regulation responsibilities of the NAIC and the states are to regulate the insurance companies, not the professional members like actuary, account, etc. He stated that this proposal has set an unnecessary exception and practice. Mr. Bruggeman asked if the proposal includes the recommendations from the Casualty Actuarial and Statistical (C) Task Force and the Executive (EX) Committee’s ad hoc group. Mr. Piazza agreed that the proposal was a result of work from both groups. Mr. Bruggeman asked for confirmation that the Blanks (E) Working Group’s role is not policy making, but it is a group that determines the implementation of instructions for policies developed by other groups. He asked for confirmation that the Working Group’s role is the implementation of policies determined by other NAIC groups. Mr. Hudson, vice chair of the Working Group, and Mr. Garn, chair of the Working Group, both indicated that Mr. Bruggeman was correct regarding the role of the Working Group.

Ms. Walker said the term “NAIC Accepted Actuarial Designation” causes Texas some concerns because of legislative concerns about the incorporation by reference of NAIC requirements. She asked if the proposal provided the flexibility for the commissioner to approve actuaries with different requirements. Kay Noonan (NAIC) noted that her understanding of the proposal sets out a definition of a qualified actuary, but it also includes the ability for the insurance commissioner to approve other actuarial qualifications or requirements. She noted that originally, there was one educational track, but once there were two tracks, it was necessary to evaluate to ensure that both met minimum qualifications. Ms. Noonan stated that while this proposal was being developed, having NAIC in the title of the term did not receive much discussion that she was aware of. She noted that the NAIC was not necessary to the term name. She noted that the state insurance regulators would apply the standard and have the ability to accept a different actuarial educational track. Ms. Walker asked if modifying the term name would cause any concerns. Ms. Noonan stated the instructions include the requirements, and the terminology name would not change the requirements.

Mr. Chou asked if the Casualty Actuarial and Statistical (C) Task Force could consider a future discussion on the topic of the actuarial qualification instructions and the groups. Mr. Piazza noted that discussion on the requirements could occur with the Casualty Actuarial and Statistical (C) Task Force in the future if determined necessary. Mr. Piazza noted that he did not expect the Executive (EX) Committee’s ad hoc group to necessarily be involved in the future as the primary project that involved the Executive (EX) Committee would be complete. Ms. Noonan agreed that the Executive (EX) Committee was involved because of the request for assistance and the request to hire a supervisor. She noted that if the Task Force believes there are issues that need to be addressed in the future, the discussion would start at the Task Force, and it would not typically involve the Executive (EX) Committee unless there was a request for assistance. Ms. Walker asked Mr. Piazza if a technical change to the name of the term from “NAIC Accepted Actuarial Designation” to “Accepted Actuarial Designation” would be of concern. Mr. Piazza and Mr. Wattanaskolpant agreed that the technical change to the terminology name would not be a concern as it would not change the content.

Ms. Walker said to Mr. Chou that she did not view the role of the Accounting Practices and Procedures (E) Task Force to override the policy decisions that had been discussed by the Casualty Actuarial and Statistical (C) Task Force and the Executive (EX) Committee to not include the Academy membership requirements. She said harking back to Mr. Bruggeman’s comments, she did not believe that the role of the Task Force was to override policy decisions that had been thoroughly discussed by other groups. Mr. Chou thanked Ms. Walker and noted that he would report back regarding the discussion that the issues he raised were of a policy nature rather than a technical change.

Craig Hanna (Academy) stated that the Academy noted that it fully supported the comments from Connecticut. He noted agreement that this time was not the appropriate avenue, but at the appropriate time, the Academy would further pursue the inconsistencies in the different annual statement type requirements.

Mr. Piazza made a motion, seconded by Mr. Wattanaskolpant to adopt agenda item 2019-20BWG (Attachment Three-A) with the minor revision suggested by Texas, to modify the proposal to change the name of the term in the proposal from “NAIC Accepted Actuarial Designation” to “Accepted Actuarial Designation.” The motion passed with Connecticut and Missouri opposed.
4. Discussed Other Matters

Ms. Walker announced that the Accounting Practices and Procedures (E) Task Force report will be discussed via conference call by the Financial Condition (E) Committee on Aug. 29.

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.
The Casualty Actuarial and Statistical (C) Task Force proposes addition of “Qualification Documentation” so the Appointed Actuary would be required to maintain workpapers explaining how the actuary meets the definition of “Qualified Actuary.” These proposed changes were adopted by the Task Force on June 11, 2019.

The Executive (EX) Committee proposes the remainder of the changes, including a new objective definition of “qualified actuary” and the results of an assessment of actuarial educational syllabi in a “NAIC-Accepted Actuarial Designation” section. These proposed changes were adopted by the Committee on June 25, 2019.

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

There are now competing property/casualty (P/C) actuarial educational organizations and no specific standards around the minimum level of education expected for an Appointed Actuary. The proposed change is designed to avoid any potential development of lower educational standards in a competitive environment, to ensure Appointed Actuaries can be expected to have a minimum level of basic education to perform the duties of an Appointed Actuary, and to provide regulatory expectations of a profession that provides a vital service for regulators and the public by issuance of the financial statement actuarial opinion. Regulators deemed it was important, especially in the absence of any licensure of Appointed Actuaries, to develop and maintain the definition of Qualified Actuary for the purpose of being an Appointed Actuary. (Note: professional actuarial associations are still allowed to implement stricter standards or modify the referenced documents/policies.)
Background on the Qualified Actuary Project

Historically in the U.S., the Casualty Actuarial Society (CAS) provided actuarial education for property and casualty (P/C) actuaries. The NAIC’s definition of a qualified actuary to be eligible to be an Appointed Actuary currently includes membership in the CAS as a core requirement. When the Society of Actuaries (SOA) introduced a general insurance (GI--aka P/C) actuarial educational track, the SOA asked the NAIC to also include a Fellow of the Society of Actuaries (SOA) who had successfully completed the SOA GI track in the qualified actuary definition.

The Casualty Actuarial and Statistical (C) Task Force was first asked to evaluate the SOA’s GI track to determine if it was acceptable to be included in that definition. In 2015 the Task Force informed its parent committee, the Property and Casualty Insurance (C) Committee, of its preference to conduct an independent review of the SOA’s GI track. At the request of the Property and Casualty Insurance (C) Committee, the Executive (EX) Committee decided it would ask the NAIC to hire a consultant to conduct such a review and would assign an EX Ad Hoc Group of commissioners to oversee the project. The NAIC released the results of the consultant’s work in July 2017. The SOA’s GI track was found to lack necessary breadth and depth to meet minimum educational standards. The CAS membership was found acceptable, with some question about the associateship level and whether the advanced reserving on Exam 7 should be required in addition to the ACAS designation.

Upon receiving advice from a consultant on the NAIC’s definition of a “Qualified Actuary,” the NAIC began a project to re-define a Qualified Actuary using objective criteria. At the 2017 Summer National Meeting, the Executive (EX) Committee adopted a fiscal to hire a consultant to conduct a P/C Appointed Actuary Job Analysis. The NAIC then worked with the CAS, SOA, and the Academy of Actuaries (Academy) to develop an aggressive timeline to complete the job analysis, draft educational standards, conduct assessments of the CAS and SOA syllabi, and expose/implement revised actuarial opinion instructions. All parties agreed with the timeline and plan.

The Job Analysis was completed by the NAIC and numerous subject matter experts (nominated by the CAS, SOA, and Academy). The NAIC’s P/C Appointed Actuary Job Analysis Project resulted in documentation of knowledge statements, or what an Appointed Actuary needs to know and do for the P/C Appointed Actuary job. Following the job analysis, the NAIC’s P/C Educational Standards and Assessment Project resulted in documentation of which elements in each knowledge statement should be included in basic education as a minimum standard, with the remaining elements achievable through experience or continuing education. Using the minimum educational standards, the NAIC and subject matter experts assessed the CAS and SOA syllabi and reading materials. The CAS and SOA have made or agreed to make specific changes to their syllabi and/or reading materials to meet these minimum standards. The revised syllabi and reference materials are required to be in place by Jan. 1, 2021.

On May 31, 2019, the NAIC finalized the assessments of the CAS and SOA. With mutual agreement to make a few additional changes to syllabi, the following designations with particular exam requirements were recommended to be accepted by the NAIC:

- FCAS with successful completion of Exam 6-US
- ACAS with successful completion of Exam 6-US and Exam 7
- FSA with successful completion of the general insurance track, including the Financial and Regulatory Environment-U.S. Exam and the Advanced Topics in General Insurance Exam.

The exam requirements were added to meet the minimum educational standards when there are choices of examination. For example, both organizations have or will offer non-US regulatory and statutory accounting exams. The new definition requires the Appointed Actuary to have successfully completed the U.S. regulatory exam. In response to comments made, allowable substitutions for specific exams were added (e.g., having passed a U.S. regulatory exam under an old syllabi) and the Grandfathering clause was replaced with allowable substitutions. The desired impact is that the NAIC would not retroactively change requirements for Appointed Actuaries. However, the instructions include additional documentation that is required if an actuary previously met the 2018 qualified actuary definition but lacks the specific exams and/or tracks under the new definition. The table of substitutions was discussed with both the CAS and SOA and agreed upon prior to adoption.

Concurrently, the EX Ad Hoc Group drafted a revised definition of Qualified Actuary to be eligible to become a P/C Appointed Actuary in instructions for the P/C Statement of Actuarial Opinion. Instructions were exposed Dec. 2017, September 2018, December 2018, and May 2019 for public comment. A public hearing was conducted on March 22, 2019.
As a result of these NAIC projects, the definition of “Qualified Actuary” was crafted to include education requirements, experience requirements, and professionalism requirements (e.g., application of U.S. Qualification Standards, Code of Conduct, and Actuarial Board of Counseling and Discipline—ABCD). The definition of Qualified Actuary replaces the requirement to be “a member in good standing of the Casualty Actuarial Society” with a requirement to obtain and maintain an “NAIC-Accepted Actuarial Designation.” An NAIC-Accepted Actuarial Organization is one that was assessed by the NAIC to meet the NAIC’s minimum educational standards for an Appointed Actuary. Continued membership in either the CAS or SOA would be required for two reasons: 1) professionalism requirements, counseling, and discipline would be applied by these actuarial organizations and 2) the CAS and SOA have an audit process to evaluate actuarial qualifications regarding Continuing Education (CE) (which the Academy does not).

The 2018 definition of qualified actuary does not require a P/C Appointed Actuary to be a member of the Academy and there has not been such a requirement since the P/C actuarial opinion was first established. (There is mention of Academy membership in current instructions, but that is limited to a rare exception whereby the Appointed Actuary does not meet the definition of Qualified Actuary in the instructions and has been evaluated by the Academy.)

Through comment letters and oral testimony, the Academy suggested that the (iii) in the definition of Qualified Actuary could be modified to require Academy membership. The Executive (EX) Committee at its June 25th meeting, on the recommendation of the EX Ad Hoc Group, agreed that the Academy’s new proposal for mandatory membership is not necessary for the P/C Appointed Actuary.

The following describes the professionalism requirements for U.S. P/C Appointed Actuaries today:
1) All professionalism standards established by the Actuarial Standards Board (ASB) are required and the Actuarial Board of Counseling and Discipline (ABCD) is applicable for all CAS and SOA members;
2) The ASB and ABCD are included in the Academy’s corporate structure but one does not have to be an Academy member for professionalism requirements to apply; and
3) All U.S. P/C Appointed Actuaries pay dues to support the ASB and the ABCD, whether or not a member of the Academy.

The EX Ad Hoc Group sent a May 10, 2019, letter to the Academy explaining its reasoning for the proposal to not add an Academy membership requirement:

Regulators recognize the value in Academy membership, as well as the Academy’s contributions to the NAIC and the entire actuarial profession. However, we are not adding Academy membership to the Statement of Actuarial Opinion instructions as a requirement. Membership in the Academy does not guaranty that an Appointed Actuary receives any license, has participated in the Appointed Actuary opinion writing seminar, has participated in any particular Academy training, nor has been certified as being qualified. If the actuary chooses not to participate in Academy activities, such abstention does not compromise the qualification of that actuary. Our conclusion is that regulators cannot derive any significant additional information about an Appointed Actuary’s qualifications, experience, or knowledge from Academy membership beyond what they already know about the actuary that holds one of the new NAIC-Accepted Actuarial Designations.

We also did not add the membership in the Academy as a requirement for review by the Academy’s Casualty Practice Council. The Academy may establish that as a requirement, just as they may charge a fee or require particular documentation even if it is not in the instructions.

The NAIC process requires a recurring assessment every 5-10 years. The process to develop standards and assess the CAS and SOA has not impacted state regulators who did not volunteer to undertake the development and assessment. Regulators may continue to employ similar processes in future years without impact to non-volunteer states.

** This section must be completed on all forms. Revised 7/18/2018

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**ACTUARIAL OPINION**

1. There is to be included with or attached to Page 1 of the Annual Statement the statement of a Qualified Appointed Actuary, entitled “Statement of Actuarial Opinion” (Actuarial Opinion), setting forth his or her opinion relating to reserves specified in the SCOPE paragraph. The Actuarial Opinion, both the narrative and required Exhibits, shall be in the format of and contain the information required by this section of the *Annual Statement Instructions – Property and Casualty*.

Upon initial engagement, the Qualified Appointed Actuary must be appointed by the Board of Directors by Dec. 31 of the calendar year for which the opinion is rendered. The Company shall notify the domiciliary commissioner within five business days of the initial appointment with the following information:

   a. Name and title (and, in the case of a consulting actuary, the name of the firm).

   b. Manner of appointment of the Appointed Actuary (e.g., who made the appointment and when).

   c. A statement that the person meets the requirements of a Qualified Actuary (or was approved by the domiciliary commissioner) and that documentation was provided to the Board of Directors.

Once this notification is furnished, no further notice is required with respect to this person unless the Board of Directors takes action to no longer appoint or retain the actuary or the actuary no longer meets the requirements of a Qualified Actuary.

The Appointed Actuary shall provide to the Board of Directors qualification documentation on occasion of their appointment, and on an annual basis thereafter, directly or through company management. The documentation should include brief biographical information and a description of how the definition of “Qualified Actuary” is met or expected to be met (in the case of continuing education) for that year. The documentation should describe the Appointed Actuary’s responsible experience relevant to the subject of the Actuarial Opinion. The Board of Directors shall document the company’s review of those materials and any other information they may deem relevant, including information that may be requested directly from the Appointed Actuary. The qualification documentation shall be considered workpapers and be available for inspection upon regulator request or during a financial examination.

If an actuary who was the Appointed Actuary for the immediately preceding filed Actuarial Opinion is replaced by an action of the Board of Directors, the Insurer shall within five (5) business days notify the Insurance Department of the state of domicile of this event. The Insurer shall also furnish the domiciliary commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former Appointed Actuary regarding the content of the opinion on matters of the risk of material adverse deviation, required disclosures, scope, procedures, type of opinion issued, substantive wording of the opinion or data quality. The disagreements required to be reported in response to this paragraph include both those resolved to the former Appointed Actuary’s satisfaction and those not resolved to the former Appointed Actuary’s satisfaction. The letter should include a description of the disagreement and the nature of its resolution (or that it was not resolved). Within this same ten (10) business days, the Insurer shall in writing also request such former Appointed Actuary to furnish a letter addressed to the Insurer stating whether the Appointed Actuary agrees with the statements contained in the Insurer’s letter and, if not, stating the reasons for which he or she does not agree. The former Appointed Actuary shall provide a written response to the insurer within ten (10) business days of such request, and the Insurer shall furnish such responsive letter from the former Appointed Actuary to the domiciliary commissioner together with its own responses.

The Appointed Actuary must report to the Board of Directors each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors. The minutes of the Board of Directors should indicate that the Appointed Actuary has presented such information to the Board of Directors and identify the manner of presentation (e.g., webinar, in-person presentation, written). A separate Actuarial Opinion is required for each company filing an Annual Statement. When there is an affiliated company pooling arrangement, one Actuarial Report for the aggregate pool is sufficient, but there must be addendums to the Actuarial Report to cover non-pooled reserves for individual companies.
The Actuarial Opinion and the supporting Actuarial Report and workpapers should be consistent with the appropriate Actuarial Standards of Practice (ASOPs), including, but not limited to, ASOP No. 23, ASOP No. 36, ASOP No. 41 and ASOP No. 43, as promulgated by the Actuarial Standards Board, and Statements of Principles adopted by the Casualty Actuarial Society.

1A. Definitions

“Appointed Actuary” for purposes of these instructions is a Qualified Actuary (or individual otherwise approved by the domiciliary commissioner) appointed by the Board of Directors in accordance with Section 1 of these instructions.

“Board of Directors” for purposes of these instructions can include the designated Board of Directors, its equivalent or an appropriate committee directly reporting to the Board of Directors.

“Qualified Actuary” is a person who:

(i) meets the basic education, experience and continuing education requirements of the Specific Qualification Standard for Statements of Actuarial Opinion, NAIC Property and Casualty Annual Statement, as set forth in the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (U.S. Qualification Standards), promulgated by the American Academy of Actuaries (Academy), and is either:

(ii) has obtained and maintains an NAIC Accepted Actuarial Designation; and

(iii) is a member of a professional actuarial association that requires adherence to the same Code of Professional Conduct promulgated by the Academy, requires adherence to the U.S. Qualification Standards, and participates in the Actuarial Board for Counseling and Discipline when its members are practicing in the U.S.

An exception to parts (i) and (ii) of this definition would be an actuary evaluated by the Academy’s Casualty Practice Council and determined to be a Qualified Actuary for particular lines of business and business activities.

(i) A member in good standing of the Casualty Actuarial Society; or

(ii) A member in good standing of the American Academy of Actuaries who has been approved as qualified for signing casualty loss reserve opinions by the Casualty Practice Council of the American Academy of Actuaries.

“NAIC Accepted Actuarial Designation” in item (ii) of the definition of a Qualified Actuary, is an actuarial designation accepted by the NAIC as meeting or exceeding the NAIC’s Minimum Property/Casualty (P/C) Actuarial Educational Standards for a P/C Appointed Actuary (published on the NAIC website). The following actuarial designations, with any noted conditions, are accepted by the NAIC as meeting or exceeding basic education minimum standards:

(i) Fellow of the CAS (FCAS) – Condition: basic education must include Exam 6 – Regulation and Financial Reporting (United States);

(ii) Associate of the CAS (ACAS) – Conditions: basic education must include Exam 6 – Regulation and Financial Reporting (United States) and Exam 7 – Estimation of Policy Liabilities, Insurance Company Valuation, and Enterprise Risk Management;

(iii) Fellow of the SOA (FSA) – Conditions: basic education must include completion of the general insurance track, including the following optional exams: the United States’ version of the Financial and Regulatory Environment Exam and the Advanced Topics in General Insurance Exam.
The table below provides some allowable exam substitutions for (i), (ii) and (iii) in the definition of “NAIC-Accepted Actuarial Designation.” Noting that CAS exams have changed over time, exceptions for (i) and (ii) provide for FCAS/ACAS designations achieved before an exam was created (e.g., CAS Exam 6-US) or with an earlier version of an exam or exam topic (e.g., 2010 CAS Exam 6 instead of the current CAS Exam 7 Section A). FCAS/ACAS qualified under the 2018 and prior Statement of Actuarial Opinion instructions can use the noted substitution rules to achieve qualification under the new instructions by demonstrating basic and/or continuing education of the required topics including material in CAS Exam 6 (US) and section A of CAS Exam 7 (in the May 2019 CAS syllabus). Exceptions for (iii) for an FSA are also included in the table. The SOA exams completed in the general insurance track in 2019 and prior should be supplemented with continuing education and experience to meet basic education requirements in the U.S. Qualification Standards. For purpose of these instructions only, the table also includes specific exams from other organizations that are accepted by the NAIC as substitutes.

<table>
<thead>
<tr>
<th>Exception for (i), (ii), or (iii)</th>
<th>Exam:</th>
<th>Exam Substitution Allowed*</th>
</tr>
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</table>
| (i) and (ii)                     | CAS Exam 6 (US) | 1. Any CAS version of a U.S. P/C statutory accounting and regulation exam administered prior to creation of the CAS Exam 6 (US) in 2011.  
2. An FCAS or ACAS earned prior to 2021 who did not pass CAS Exam 6 (US) or an allowable exam substitution, may substitute experience and/or continuing education for CAS Exam 6 (US) provided the Appointed Actuary explains in his/her qualification documentation how knowledge of U.S. financial reporting and regulation was obtained.  
3. SOA FREU (US) Exam |
| (ii)                             | CAS Exam 7 | 1. Any CAS version of an exam including advanced P/C reserving administered prior to creation of Exam 7 in 2011.  
2. An ACAS earned prior to 2021 who did not pass CAS Exam 7 or an allowable exam substitution, may substitute experience and/or continuing education for CAS Exam 7 provided the Appointed Actuary explains in his/her qualification documentation how knowledge of the additional reserving topics in CAS Exam 7 (Section A) in the May 2019 syllabus was obtained.  
3. SOA Advanced Topics Exam (Note: The ERM portion of Exam 7 is not needed to meet NAIC educational standards, therefore SOA ERM Exam is not needed for the substitution for this purpose.) |
| (iii)                            | SOA FREU (US) Exam | 1. CAS Exam 6 (US)  
| (iii)                            | SOA Advanced Topics Exam | 1. CAS Exam 7  
2. Any CAS version of an exam containing the advanced techniques to estimate policy liabilities (i.e., advanced reserving). |

*Note: These exam substitutions only apply to these instructions and are not applicable for CAS or SOA exam waivers.
“Insurer” or “Company” means an insurer or reinsurer authorized to write property and/or casualty insurance under the laws of any state and who files on the Property and Casualty Blank.

“Actuarial Report” means a document or other presentation prepared as a formal means of conveying to the state regulatory authority and the Board of Directors the Appointed Actuary’s professional conclusions and recommendations of recording and communicating the methods and procedures, of assuring that the parties addressed are aware of the significance of the Appointed Actuary’s opinion or findings, and of documenting the analysis underlying the opinion. The required content of the Actuarial Report is further described in paragraph 7. (Note that the inclusion of the Board of Directors as part of the intended audience for the Actuarial Report does not change the content of the Actuarial Report as described in paragraph 7. The Appointed Actuary should present findings to the Board of Directors in a manner deemed suitable for such audience.)

“Property and Casualty (P&C) Long Duration Contracts” refers to contracts (excluding financial guaranty contracts, mortgage guaranty contracts and surety contracts) that fulfill both of the following conditions: (1) the contract term is greater than or equal to 13 months; and (2) the insurer can neither cancel the contract nor increase the premium during the contract term. These contracts are subject to the three tests of SSAP No. 65—Property and Casualty Contracts of the NAIC Accounting Practices and Procedures Manual.

“Accident and Health (A&H) Long Duration Contracts” refers to A&H contracts in which the contract term is greater than or equal to 13 months and contract reserves are required. See Schedule H instructions for a description of categories of contract reserves, as well as policy features that give rise to contract reserves. Two specific examples of contracts that typically require contract reserves are long-term care and disability income insurance.

1B. Exemptions

An insurer who intends to file for one of the exemptions under this Section must submit a letter of intent to its domiciliary commissioner no later than December 1 of the calendar year for which the exemption is to be claimed. The commissioner may deny the exemption prior to December 31 of the same year if he or she deems the exemption inappropriate.

A copy of the approved exemption must be filed with the Annual Statement in all jurisdictions in which the company is authorized.

Exemption for Small Companies

An insurer that has less than $1,000,000 total direct plus assumed written premiums during a calendar year, and less than $1,000,000 total direct plus assumed loss and loss adjustment expense reserves at year-end, in lieu of the Actuarial Opinion required for the calendar year, may submit an affidavit under oath of an officer of the insurer that specifies the amounts of direct plus assumed written premiums and direct plus assumed loss and loss adjustment reserves.

Exemption for Insurers under Supervision or Conservatorship

Unless ordered by the domiciliary commissioner, an insurer that is under supervision or conservatorship pursuant to statutory provision is exempt from the filing requirements contained herein.

Exemption for Nature of Business

An insurer otherwise subject to the requirement and not eligible for an exemption as enumerated above may apply to its domiciliary commissioner for an exemption based on the nature of business written.
Financial Hardship Exemption

An insurer otherwise subject to this requirement and not eligible for an exemption as enumerated above may apply to the commissioner for a financial hardship exemption. Financial hardship is presumed to exist if the projected reasonable cost of the Actuarial Opinion would exceed the lesser of:

(i) One percent (1%) of the insurer’s capital and surplus reflected in the insurer’s latest quarterly statement for the calendar year for which the exemption is sought; or

(ii) Three percent (3%) of the insurer’s direct plus assumed premiums written during the calendar year for which the exemption is sought as projected from the insurer’s latest quarterly statements filed with its domiciliary commissioner.

1C. Reporting Requirements for Pooled Companies

For each company in the pool, the Appointed Actuary shall include a description of the pool, identification of the lead company and a listing of all companies in the pool, their state of domicile and their respective pooling percentages.

Exhibits A and B for each company in the pool should represent the company’s share of the pool and should reconcile to the financial statement for that company.

The following paragraph applies to companies that have a 0% share of the pool (no reported Schedule P data). The company shall submit an Actuarial Opinion that reads similar to that provided for the lead company. For example, the IRIS ratio and risk of material adverse deviation discussions, and other relevant comments shall relate to the risks of the lead company in the pool. The Exhibit B responses to question 5 should be $0 and to question 6 should be “not applicable.” Exhibits A and B of the lead company should be attached as an addendum to the PDF file and/or hard copy being filed (but would not be reported by the 0% companies in their data capture).

2. The Actuarial Opinion must consist of an IDENTIFICATION paragraph identifying the Appointed Actuary; a SCOPE paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the Appointed Actuary’s work; an OPINION paragraph expressing his or her opinion with respect to such subjects; and one or more additional RELEVANT COMMENTS paragraphs. These four sections must be clearly designated.

3. The IDENTIFICATION paragraph should indicate the Appointed Actuary’s relationship to the Company, qualifications for acting as Appointed Actuary, and date of appointment, and specify that the appointment was made by the Board of Directors.

If the Appointed Actuary was approved by the Academy to be a “Qualified Actuary,” with or without limitation, or if the Appointed Actuary is not a Qualified Actuary but was approved by the domiciliary commissioner, the company must attach, each year, the approval letter and reference such in the identification paragraph. A member of the American Academy of Actuaries qualifying under paragraph 1A(ii) must attach, each year, a copy of the approval letter from the Academy.

These Instructions require that a Qualified Actuary prepare the Actuarial Opinion. Nevertheless, if a person who does not meet the definition of a Qualified Actuary has been approved by the insurance regulatory official of the domiciliary state, the Company must attach, each year, a letter from that official stating that the individual meets the state’s requirements for rendering the Actuarial Opinion.
4. The SCOPE paragraph should contain a sentence such as the following:

“I have examined the actuarial assumptions and methods used in determining reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 20__, and reviewed information provided to me through XXX date.”

Exhibit A should list those items and amounts with respect to which the Appointed Actuary is expressing an opinion.

The Appointed Actuary should state that the items in the SCOPE, on which he or she is expressing an opinion, reflect Disclosure items 8 through 13.2 in Exhibit B.

The SCOPE paragraph should include a paragraph such as the following regarding the data used by the Appointed Actuary in forming the opinion:

“In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by ___________ (officer name and title at the Company). I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P, Part 1 of the Company’s current Annual Statement. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary.”

5. The OPINION paragraph should include a sentence that at least covers the points listed in the following illustration:

“In my opinion, the amounts carried in Exhibit A on account of the items identified:

- A. Meet the requirements of the insurance laws of (state of domicile).
- B. Are computed in accordance with accepted actuarial standards and principles.
- C. Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.”

If the Scope includes material Unearned Premium Reserves for P&C Long Duration Contracts or Other Loss Reserve items on which the Appointed Actuary is expressing an opinion, the Actuarial Opinion should contain language such as the following:

- D. Make a reasonable provision for the unearned premium reserves for P&C Long Duration Contracts and/or <insert Other Loss Reserve item on which the Appointed Actuary is expressing an Opinion> of the Company under the terms of its contracts and agreements.

If there is any aggregation or combination of items in Exhibit A, the opinion language should clearly identify the combined items.

Insurance laws and regulations shall at all times take precedence over the actuarial standards and principles.

If the Appointed Actuary has made use of the analysis of another actuary not within the Appointed Actuary’s control (such as for pools and associations, for a subsidiary or for special lines of business) for a material portion of the reserves, the other actuary must be identified by name, credential and affiliation within the OPINION paragraph. If the Appointed Actuary has made use of the work of a non-actuary (such as for modeling) for a material portion of the reserves, that individual must be identified by name and affiliation and a description of the type of analysis performed must be provided.
A Statement of Actuarial Opinion should be made in accordance with one of the following sections (1 through 5). The Appointed Actuary must explicitly identify in Exhibit B which type applies.

1. **Determination of Reasonable Provision.** When the carried reserve amount is within the Appointed Actuary’s range of reasonable reserve estimates, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount makes a reasonable provision for the liabilities associated with the specified reserves.

2. **Determination of Deficient or Inadequate Provision.** When the carried reserve amount is less than the minimum amount that the Appointed Actuary believes is reasonable, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves. In addition, the Appointed Actuary should disclose the minimum amount that the Appointed Actuary believes is reasonable.

3. **Determination of Redundant or Excessive Provision.** When the carried reserve amount is greater than the maximum amount that the Appointed Actuary believes is reasonable, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves. In addition, the Appointed Actuary should disclose the maximum amount that the Appointed Actuary believes is reasonable.

4. **Qualified Opinion.** When, in the Appointed Actuary’s opinion, the reserves for a certain item or items are in question because they cannot be reasonably estimated or the Appointed Actuary is unable to render an opinion on those items, the Appointed Actuary should issue a qualified Statement of Actuarial Opinion. The Appointed Actuary should disclose the item (or items) to which the qualification relates, the reason(s) for the qualification and the amounts for such item(s), if disclosed by the Company. Such a qualified opinion should state whether the carried reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, except for the item (or items) to which the qualification relates. The Appointed Actuary is not required to issue a qualified opinion if the Appointed Actuary reasonably believes that the item (or items) in question are not likely to be material.

5. **No Opinion.** The Appointed Actuary’s ability to give an opinion is dependent upon data, analyses, assumptions, and related information that are sufficient to support a conclusion. If the Appointed Actuary cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions, or related information, then the Appointed Actuary may issue a statement of no opinion. A statement of no opinion should include a description of the reasons why no opinion could be given.

6. The Appointed Actuary must provide RELEVANT COMMENT paragraphs to address the following topics of regulatory importance.

   **A. Company-Specific Risk Factors**

   The Appointed Actuary should include an explanatory paragraph to describe the major factors, combination of factors or particular conditions underlying the risks and uncertainties the Appointed Actuary considers relevant. The explanatory paragraph should not include general, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces, etc., nor is the Appointed Actuary required to include an exhaustive list of all potential sources of risks and uncertainties.

   **B. Risk of Material Adverse Deviation**

   The Appointed Actuary must provide specific RELEVANT COMMENT paragraphs to address the risk of material adverse deviation. The Appointed Actuary must identify the materiality standard and the basis for establishing this standard. The materiality standard must also be disclosed in U.S. dollars in Exhibit B: Disclosures. The Appointed Actuary should explicitly state whether or not he or she reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation. This determination is also to be disclosed in Exhibit B.
C. Other Disclosures in Exhibit B

RELEVANT COMMENT paragraphs should describe the significance of each of the remaining Disclosure items (8 through 14) in Exhibit B. The Appointed Actuary should address the items individually and in combination when commenting on a material impact.

D. Reinsurance

RELEVANT COMMENT paragraphs should address reinsurance collectability, retroactive reinsurance and financial reinsurance.

The Appointed Actuary’s comments on reinsurance collectability should address any uncertainty associated with including potentially-uncollectable amounts in the estimate of ceded reserves. Before commenting on reinsurance collectability, the Appointed Actuary should solicit information from management on any actual collectability problems, review ratings given to reinsurers by a recognized rating service, and examine Schedule F for the current year for indications of regulatory action or reinsurance recoverable on paid losses over ninety (90) days past due. The comment should also reflect any other information the Appointed Actuary has received from management or that is publicly available about the capability or willingness of reinsurers to pay claims. The Appointed Actuary’s comments do not imply an opinion on the financial condition of any reinsurer.


Financial reinsurance refers to contracts referenced in SSAP No. 62R in which credit is not allowed for the ceding insurer because the arrangements do not include a transfer of both timing and underwriting risk that the reinsurer undertakes in fact to indemnify the ceding insurer against loss or liability by reason of the original insurance.

E. IRIS Ratios

If the Company’s reserves will create exceptional values under the NAIC IRIS Tests for One-Year Reserve Development to Policyholders’ Surplus, Two-Year Reserve Development to Policyholders’ Surplus or Estimated Current Reserve Deficiency to Policyholders’ Surplus, the Appointed Actuary must include RELEVANT COMMENT on the factors that led to the unusual value(s).

F. Methods and Assumptions

If there has been any significant change in the actuarial assumptions and/or methods from those previously employed, that change should be described in a RELEVANT COMMENT paragraph. If the Appointed Actuary is newly-appointed and does not review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.

7. The Actuarial Opinion must include assurance that an Actuarial Report and underlying actuarial workpapers supporting the Actuarial Opinion will be maintained at the Company and available for regulatory examination for seven (7) years. The Actuarial Report contains significant proprietary information. It is expected that the Actuarial Report be held confidential and not be intended for public inspection. The Actuarial Report must be available by May 1 of the year following the year-end for which the Actuarial Opinion was rendered or within two (2) weeks after a request from an individual state commissioner.

The Actuarial Report should be consistent with the documentation and disclosure requirements of ASOP No. 41, Actuarial Communications. The Actuarial Report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to Company management, the Board of Directors, the regulator or other authority the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data (e.g., loss triangles) to the conclusions.
The Actuarial Report should contain disclosure of all reserve amounts associated with A&H Long Duration Contracts reported by the Company; the reserve amounts in the Actuarial Report should tie to the Annual Statement.

The Actuarial Report must also include:

A. A description of the Appointed Actuary’s relationship to the Company, with clear presentation of the Appointed Actuary’s role in advising the Board of Directors and/or management regarding the carried reserves. The Actuarial Report should identify how and when the Appointed Actuary presents the analysis to the Board of Directors and, where applicable, to the officer(s) of the Company responsible for determining the carried reserves.

B. An exhibit that ties to the Annual Statement and compares the Appointed Actuary’s conclusions to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis. The Appointed Actuary’s conclusions include the Appointed Actuary’s point estimate(s), range(s) of reasonable estimates or both.

C. An exhibit that reconciles and maps the data used by the Appointed Actuary, consistent with the segmentation of exposure or liability groupings used in the Appointed Actuary’s analysis, to the Annual Statement Schedule P line of business reporting. An explanation should be provided for any material differences.

D. An exhibit or appendix showing the change in the Appointed Actuary’s estimates from the prior Actuarial Report, including extended discussion of factors underlying any material changes. The exhibit or appendix should illustrate the changes on a net basis, but should also include the changes on a gross basis, if relevant. If the Appointed Actuary is newly-appointed and does not review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.

E. Extended comments on trends that indicate the presence or absence of risks and uncertainties that could result in material adverse deviation.

F. Extended comments on factors that led to unusual IRIS ratios for One-Year Reserve Development to Policyholders’ Surplus, Two-Year Reserve Development to Policyholders’ Surplus or Estimated Current Reserve Deficiency to Policyholders’ Surplus, and how these factors were addressed in prior and current analyses.

8. Both the Actuarial Opinion and the Actuarial Report should conclude with the signature of the Appointed Actuary responsible for providing the Actuarial Opinion and the respective dates when the Actuarial Opinion was rendered and the Actuarial Report finalized. The signature and date should appear in the following format:

___________________________________
Signature of Appointed Actuary
Printed name of Appointed Actuary
Employer’s name
Address of Appointed Actuary
Telephone number of Appointed Actuary
Email address of Appointed Actuary
Date opinion was rendered
9. The Insurer required to furnish an Actuarial Opinion shall require its Appointed Actuary to notify its Board of Directors or its audit committee in writing within five (5) business days after any determination by the Appointed Actuary that the Actuarial Opinion submitted to the domiciliary commissioner was in error as a result of reliance on data or other information (other than assumptions) that, as of the balance sheet date, was factually incorrect. The Actuarial Opinion shall be considered to be in error if the Actuarial Opinion would have not been issued or would have been materially altered had the correct data or other information been used. The Actuarial Opinion shall not be considered to be in error if it would have been materially altered or not issued solely because of data or information concerning events subsequent to the balance sheet date or because actual results differ from those projected. Notification is required when discovery is made between the issuance of the Actuarial Opinion and Dec. 31 of that year. Notification should include a summary of such findings.

If the Appointed Actuary learns that the data or other information relied upon was factually incorrect, but cannot immediately determine what, if any, changes are needed in the Actuarial Opinion, the Appointed Actuary and the Company should quickly undertake procedures necessary for the Appointed Actuary to make such determination. If the Insurer does not provide the necessary data corrections and other support (including financial support) within ten (10) business days, the Appointed Actuary should proceed with the notification to the Board of Directors and the domiciliary commissioner.

An Insurer who is notified pursuant to the preceding paragraphs shall forward a copy of the amended Actuarial Opinion to the domiciliary commissioner within five (5) business days of receipt of such and shall provide the Appointed Actuary making the notification with a copy of the letter and amended Actuarial Opinion submitted to the domiciliary commissioner. If the Appointed Actuary fails to receive such copy within the five (5) business day period referred to in the previous sentence, the Appointed Actuary shall notify the domiciliary commissioner within the next five (5) business days that an amended Actuarial Opinion has been finalized.

No Appointed Actuary shall be liable in any manner to any person for any statement made in connection with the above paragraphs if such statement is made in a good faith effort to comply with the above paragraphs.

10. Data in Exhibits A and B are to be filed in both print and data capture format.

**Exhibit A: SCOPE**

**DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS**

<table>
<thead>
<tr>
<th>Loss and Loss Adjustment Expense Reserves:</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Unpaid Losses (Liabilities, Surplus and Other Funds page, Col 1, Line 1)</td>
<td>$ _________</td>
</tr>
<tr>
<td>2. Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col 1, Line 3)</td>
<td>$ _________</td>
</tr>
<tr>
<td>3. Unpaid Losses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 13 and 15, Line 12 * 1000)</td>
<td>$ _________</td>
</tr>
<tr>
<td>4. Unpaid Loss Adjustment Expenses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 17, 19 and 21, Line 12 * 1000)</td>
<td>$ _________</td>
</tr>
<tr>
<td>5. The Page 3 write-in item reserve, “Retroactive Reinsurance Reserve Assumed”</td>
<td>$ _________</td>
</tr>
<tr>
<td>6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)</td>
<td>$ _________</td>
</tr>
</tbody>
</table>

**Premium Reserves:**

<table>
<thead>
<tr>
<th>Premium Reserves:</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Reserve for Direct and Assumed Unearned Premiums for P&amp;C Long Duration Contracts</td>
<td>$ _________</td>
</tr>
<tr>
<td>8. Reserve for Net Unearned Premiums for P&amp;C Long Duration Contracts</td>
<td>$ _________</td>
</tr>
<tr>
<td>9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)</td>
<td>$ _________</td>
</tr>
</tbody>
</table>
Exhibit B: DISCLOSURES
DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS

NOTE: Exhibit B should be completed for Net dollar amounts included in the SCOPE. If an answer would be different for Direct and Assumed amounts, identify and discuss the difference within RELEVANT COMMENTS.

1. Name of the Appointed Actuary
   Last _______  First _____  Mid _______

2. The Appointed Actuary’s relationship to the Company
   Enter E or C based upon the following:
   E if an Employee of the Company or Group
   C if a Consultant

3. The Appointed Actuary’s NAIC-Accepted Actuarial Designation has the following designation (indicated by the letter code):
   F if a Fellow of the Casualty Actuarial Society (FCAS)
   A if an Associate of the Casualty Actuarial Society (ACAS)
   S if a Fellow of the Society of Actuaries (FSA) through the General Insurance track
   M if the actuary does not have an NAIC-Accepted Actuarial Designation, but is not a member of the Casualty Actuarial Society, but a Member of the American Academy of Actuaries (MAAA) approved by the Academy’s Casualty Practice Council, as documented with the attached approval letter.
   O for Other

4. Type of Opinion, as identified in the OPINION paragraph. Enter R, I, E, Q, or N based upon the following:
   R if Reasonable
   I if Inadequate or Deficient Provision
   E if Excessive or Redundant Provision
   Q if Qualified. Use Q when part of the OPINION is Qualified.
   N if No Opinion

5. Materiality Standard expressed in U.S. dollars (used to Answer Question #6)
   $ _______  

6. Are there significant risks that could result in Material Adverse Deviation?
   Yes [ ]  No [ ]  Not Applicable [ ]

7. Statutory Surplus (Liabilities, Surplus and Other Funds page, Col 1, Line 37)
   $ _______

8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (should equal Part 1 Summary, Col 23, Line 12 * 1000)
   $ _______

9. Discount included as a reduction to loss reserves and loss adjustment expense reserves as reported in Schedule P
   9.1 Nontabular Discount [Notes, Line 32B23, (Amounts 1, 2, 3 & 4)], Electronic Filing Cols 1, 2, 3, & 4
   $ _______
   9.2 Tabular Discount [Notes, Line 32A23, (Amounts 1 & 2)], Electronic Filing Col 1 & 2
   $ _______
10. The net reserves for losses and loss adjustment expenses for the Company’s share of voluntary and involuntary underwriting pools’ and associations’ unpaid losses and loss adjustment expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines

$ _______

11. The net reserves for losses and loss adjustment expenses that the Company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines *

11.1 Asbestos, as disclosed in the Notes to Financial Statements (Notes, Line 33A03D, ending net asbestos reserves for current year) Electronic Filing Col 5

$ _______

11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 33D03D, ending net environmental reserves for current year), Electronic Filing Col 5

$ _______

12. The total claims made extended loss and loss adjustment expense, and unearned premium reserves (Greater than or equal to Schedule P Interrogatories)

12.1 Amount reported as loss and loss adjustment expense reserves

$ _______

12.2 Amount reported as unearned premium reserves

$ _______

13. The net reserves for the A&H Long Duration Contracts that the Company carries on the following lines on the Liabilities, Surplus and Other Funds page:

13.1 Losses

$ _______

13.2 Loss Adjustment Expenses

$ _______

13.3 Unearned Premium

$ _______

13.4 Write-In (list separately, adding additional lines as needed, and identify (e.g., “Premium Deficiency Reserves”, “Contract Reserves other than Premium Deficiency Reserves” or “AG 51 Reserves”))

$ _______

14. Other items on which the Appointed Actuary is providing relevant comment (list separately, adding additional lines as needed)

$ _______

* The reserves disclosed in item 11 above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor’s Pollution Liability, Consultant’s Environmental Liability, and Pollution and Remediation Legal Liability.