

## ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Accounting Practices and Procedures (E) Task Force December 11, 2021, Minutes

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Statutory Accounting Principles (E) Working Group November 10, 2021, Minutes (Attachment One-A)

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NAIC Accounting Practices and Procedures Manual Editorial and Maintenance Update – October 25, 2021  
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Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2021-14; Policy  
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Blanks (E) Working Group November 16, 2021, Minutes (Attachment Two)

Blanks (E) Working Group Agenda Item Submission Form 2021-14 MOD; Effective Annual 2022; Expanded the  
Number of Lines of Business Reported on Schedule H to Match the Lines of Business Reported on the Health  
Statement; Modified the Instructions to be Uniform Between Life/Fraternal and Property (Attachment Two-A)

Blanks (E) Working Group Editorial Revisions to the Blanks and Instructions Presented at its November 16, 2021,  
Meeting (Attachment Two-B)

State Filing Checklist Templates (Attachment Two-C)

## Draft Pending Adoption

Draft: 12/17/21

### Accounting Practices and Procedures (E) Task Force San Diego, California December 11, 2021

The Accounting Practices and Procedures (E) Task Force met Dec. 11, 2021, in San Diego, CA. The following Task Force members participated: Cassie Brown, Chair, represented by Jamie Walker (TX); Trinidad Navarro, Vice Chair, represented by Rylynn Brown (DE); Lori K. Wing-Heier represented by David Phifer (AK); Alan McClain represented by Leo Liu (AR); Ricardo Lara represented by Kim Hudson and Susan Bernard (CA); Andrew N. Mais represented by William Arfanis and Kenneth Cotrone (CT); Karima M. Woods represented by N. Kevin Brown (DC); David Altmaier represented by Robert Ridenour (FL); Michelle B. Santos (GU) Doug Ommen represented by Kevin Clark and Daniel Mathis (IA); Dean L. Cameron represented by Jessie Adamson and Eric Fletcher (ID); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); James J. Donelon represented by Stewart Guerin (LA); Gary D. Anderson represented by John Turchi (MA); Eric A. Cioppa represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver (MI); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Johnny Palsgraaf (ND); Eric Dunning represented by Lindsay Crawford (NE); Chris Nicolopoulos represented by Doug Bartlett (NH); Russell Toal represented by Leatrice Geckler (NM); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Jessica K. Altman represented by Melissa Greiner, Matt Milford, and Kimberly Rankin (PA); Elizabeth Kelleher Dwyer represented by Jack Broccoli (RI); Larry D. Deiter represented by Johanna Nickelson (SD); Carter Lawrence represented by Trey Hancock (TN); Scott A. White represented by Doug Stolte and Greg Chew (VA); Michael S. Pieciak represented by Karen Ducharme (VT); Mike Kreidler represented by Steve Drutz (WA); Mark Afile represented by Amy Malm (WI); Allan L. McVey represented by Tonya Gillespie (WV); and Jeff Rude represented by Linda Johnson (WY).

#### 1. Adopted its Summer National Meeting Minutes

Ms. Walker directed the members to the Task Force's 2021 Summer National Meeting minutes. Ms. Obusek made a motion, seconded by Mr. Bruggeman, to adopt the Task Force's July 27 minutes (*see NAIC Proceedings – Summer 2021, Accounting Practices and Procedures (E) Task Force*). The motion passed unanimously.

#### 2. Adopted the Report of the Statutory Accounting Principles (E) Working Group

Mr. Bruggeman provided the report of the Statutory Accounting Principles (E) Working Group, which met Dec. 11. The Working Group adopted its Nov. 10, Oct. 25, Sept. 10, Aug. 26, July 20, and July 12 minutes. During its July 12 e-vote, the Working Group adopted its May 20, April 20, and March 15 minutes. During its July 20 e-vote, the Working Group exposed agenda item 2021-10: SSAP No. 32R – Clarification of Effective Call Price for a public comment period ending Aug 6.

Mr. Bruggeman stated that the Working Group adopted *Issue Paper No. 165—Levelized Commissions* to document the discussion that led to the adoption of nonsubstantive revisions to *Statement of Statutory Accounting Principles (SSAP) No. 71—Policy Acquisition Costs and Commissions* from agenda item 2019-24: Levelized and Persistency Commission. (Ref #2019-24)

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

- A. *SSAP No. 32R—Preferred Stock*: Revisions remove lingering references to clarify that historical cost is not a permitted valuation method. Other revisions ensure consistencies with previously adopted language. (Ref #2021-17)
- B. *SSAP No. 43R—Loan-Backed and Structured Securities*: Revisions capture Securities Valuation Office (SVO)-identified credit tenant loans (CTLs) in scope of SSAP No. 43R. Revisions also remove examples of various securities from a non-scope paragraph. (Ref #2021-11)
- C. *Appendix F – NAIC Policy Statements: NAIC Policy Statement on Maintenance of Statutory Accounting Principles*: In response to a referral received from the Financial Condition (E) Committee, revisions modify the historical use of the terms “substantive” and “nonsubstantive.” Effective Jan. 1, 2022, substantive modifications will be identified as a “new SAP concept,” while nonsubstantive modifications will be a “SAP clarification.” (Ref #2021-14)

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- D. Blanks Proposal: Adopted an agenda item supporting supplemental reporting of Federal Home Loan Bank (FHLB) borrowings classified as a deposit-type contract and reported on Exhibit 7 – Deposit-Type Contracts. This agenda item did not result in statutory revisions; however, it reflected support for blanks proposal 2021-15BWG. (Ref #2021-16)
- E. Adopted the following editorial revisions (Ref #2021-19EP):
  - i. *SSAP No. 16R—Electronic Data Processing Equipment and Software*: Revisions correct various paragraph references.
  - ii. *SSAP No. 43R*: Revisions remove outdated references to guidance previously deleted.
- F. Nullified *Interpretation (INT) 20-10: Reporting Nonconforming Credit Tenant Loans* as no longer applicable for statutory accounting. While the INT expired on Oct. 1, for historical documentation purposes, the Working Group nullified the reporting exceptions within the INT. The revisions adopted to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) make this guidance no longer relevant. (INT 20-10 and Ref# 2021-11)

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

- A. *SSAP No. 22R—Leases*:
  - i. Revisions clarify that in any scenario in which a lease terminates early, all remaining leasehold improvements shall be immediately expensed. (Ref #2021-25)
  - ii. Revisions reject *Accounting Standards Update (ASU) 2021-05, Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments* for statutory accounting. (Ref #2021-29)
- B. *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 43R*: Revisions clarify the identification and reporting requirements for affiliated transactions and incorporate new disclosures to identify investments held that involve related parties. The new disclosures will require identification when investments are acquired through, or in, related parties, regardless of if they meet the definition of an affiliate. (Ref #2021-21)
- C. *SSAP No. 43R*: Revisions reflect updated NAIC designation and designation category guidance adopted by the Valuation of Securities (E) Task Force to the P&P Manual for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS). (Ref #2021-23)
- D. *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*: Revisions reflect 2021 clarifications to life and health reinsurance disclosures and provide a proposed guidance document to address auditor inquiries based on disclosures initially reported at year-end 2020. (Ref #2021-31)
- E. *SSAP No. 68—Business Combinations and Goodwill*: Revisions reject *ASU 2021-03, Intangibles – Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events* for statutory accounting. (Ref #2021-28)
- F. *SSAP No. 72—Surplus and Quasi-Reorganizations*: Revisions reject *ASU 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)—Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options* for statutory accounting. Revisions incorporate guidance on how to account for changes in fair values for written call options. (Ref #2021-27)
- G. *SSAP No. 86—Derivatives*: Agenda item seeks public comment regarding possible revisions in considering an expanded effective hedge relationship permitted under U.S. generally accepted accounting principles (GAAP) within *ASU 2017-12: Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*. (Ref #2021-20)

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- H. *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*: Revisions remove reference to the “standard scenario” to ensure consistency with VM-21, Requirements for Principle-Based Reserves for Variable Annuities. (Ref #2021-18)
- I. *Appendix D—Nonapplicable GAAP Pronouncements*: Revisions reject ASU 2021-04, *Presentation of Financial Statements (Topic 205)*, *Financial Services—Depository and Lending (Topic 942)*, and *Financial Services—Investment Companies (Topic 946)*, *Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants* as not applicable for statutory accounting. (Ref #2021-30)
- J. Bond Proposal Project: Exposed a discussion draft of potential reporting options to revise Schedule D, Part 1: Long-Term Bonds to capture more granularity and transparency of investments reported as bonds. It also exposed revisions to the proposed principle concepts in determining whether an asset-backed security (ABS) satisfies the credit enhancement criteria for reporting as a bond. (Ref #2019-21)
- K. Blanks Referrals
  - i. Exposed and sponsored a proposal to the Blanks (E) Working Group to supplement reporting of subsidiary, controlled, and affiliated entities (SCA) investments reported in Schedule D, Part 1, Section 1: Valuation of Shares of Subsidiary, Controlled or Affiliated Companies. The supplemental data is consistent with *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* disclosure requirements, and it will assist state insurance regulators in identifying: 1) sub 1 and sub 2 filings are being submitted; and 2) situations where NAIC-approved values vary significantly from values reported on Schedule D-6-1. (Ref #2021-22)
  - ii. Exposed and sponsored a proposal to the Blanks (E) Working Group to add a new general interrogatory to require disclosure of when cryptocurrencies are directly held or permitted for the remittance of premiums. (Ref #2021-24)
- L. Editorial Revisions: Exposed revisions to terminology references of “substantive” and “nonsubstantive” to reflect “new SAP concept” and “SAP clarification.” (Ref #2021-26EP)

Mr. Bruggeman stated that the comment period for items exposed is Feb. 18, 2022, except for agenda items 2021-18 and 2021-31, which have a Jan. 14, 2022, comment deadline to allow for possible adoption prior to the filing of the 2021 financial statements and their audited reports. He noted that these two items may be subject to a possible e-vote for adoption.

Mr. Bruggeman stated that the Working Group disposed agenda item 2020-24: Accounting and Reporting of Credit Tenant Loans without statutory revisions. He noted that with edits adopted to clarify the determination of a CTL, further discussion on this agenda item was no longer required. (Ref #2020-24)

Mr. Bruggeman provided that the Working Group received an update on the following items:

- A. Received an update on *INT 20-03: Troubled Debt Restructuring Due to COVID-19* and *INT 20-07: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19*. These INTs provide exceptions to the application of guidance in *SSAP No. 36—Troubled Debt Restructuring* in response to COVID-19. The INTs will expire on Jan. 2, 2022.
- B. Received an update on the Working Group referral of agenda item 2019-49: Retroactive Reinsurance Exception regarding diversity in the reporting of companies applying the retroactive reinsurance exception, which allows certain contracts to be reported prospectively. The Casualty Actuarial and Statistical (C) Task Force discussed this item on Dec. 7 and exposed a presentation.
- C. Received an update on U.S. GAAP exposures, noting that pending items will be addressed during the normal maintenance process.
- D. Received an update on key pending projects and discussed priorities.

## Draft Pending Adoption

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

### 3. Adopted the Report of the Blanks (E) Working Group

Mr. Hudson provided the report of the Blanks (E) Working Group, which met Nov. 16, 2021.

Mr. Hudson stated that the Working Group adopted its July 22 minutes (*see NAIC Proceedings – Summer 2021, Accounting Practices and Procedures (E) Task Force, Attachment Two*).

Mr. Hudson stated that the Working Group adopted its editorial listing and proposal 2021-14BWG, which expands the number of lines of business reported on Schedule H to match the lines of business reported on the Health Statement and modifies the instructions so they will be uniform between life/fraternal and property.

Mr. Hudson said the Working Group approved the State Filing Checklists.

Mr. Hudson said the Working Group rejected proposal 2021-11BWG requesting to add a new annual statement supplement to the Property/Casualty (P/C) statement to capture exposure data for Annual Statement Lines 4, 19.1, 19.2, and 21.2 of the Exhibit of Premiums and Losses. He noted that the Working Group also deferred for future discussion proposal 2021-13BWG for a public comment period ending March 4, 2022. Proposal 2021-13BWG adds a new supplement to capture premium and loss data for Annual Statement Lines 17.1, 17.2, and 17.3 of the Exhibit of Premiums and Losses (State Page) – Other Liability by more granular lines of business. He also stated that the Working Group exposed seven new proposals for a public comment period ending March 4, 2022.

Mr. Hudson announced that the long-time chair, Jake Garn (UT), is stepping down as chair of the Blanks (E) Working Group, but he will remain a member of the Working Group. He stated that Patricia Gosselin (DE) agreed to become the Working Group chair in 2022.

Mr. Hudson made a motion, seconded by Ms. Malm 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.

APPTF 12-11-2021 minutes.docx

Draft: 12/21/21

Statutory Accounting Principles (E) Working Group  
San Diego, California  
December 11, 2021

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Dec. 11, 2021. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears and Kevin Clark, Co-Vice Chairs (IA); Kim Hudson and Susan Bernard (CA); William Arfanis, Kathy Belfi, and Kenneth Cotrone (CT); Rylenn Brown (DE); Kevin Fry (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Bob Kasinow (NY); Melissa Greiner, Kimberly Rankin, and Matt Milford (PA); Jamie Walker (TX); Greg Chew (VA); and Amy Malm (WI).

1. Adopted its Nov. 10, Oct. 25, Sept. 10, Aug. 26, July 20, and July 12 Minutes

Ms. Malm made a motion, seconded by Mr. Chew, to adopt the Working Group's Nov. 10 (Attachment One-A), Oct. 25 (Attachment One-B), Sept. 10 (Attachment One-C), Aug. 26 (Attachment One-D), July 20 (*see NAIC Proceedings – Summer 2021, Accounting Practices and Procedures (E) Task Force, Attachment One-A*), and July 12 (*see NAIC Proceedings – Summer 2021, Accounting Practices and Procedures (E) Task Force, Attachment One-B*) minutes. The motion passed unanimously.

The Working Group met Dec. 2, Aug. 10, and July 29 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings. No actions were taken during these meetings. The discussion for the respective dates referenced above included review of the Fall National Meeting agenda, an update on the "SSAP No. 43R Project," and a review of certain (company specific) financial information from 2020 year-end financial statements filed with the NAIC.

2. Adopted Non-Contested Positions

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

a. Agenda Item 2019-24

Mr. Bruggeman directed the Working Group to agenda item 2019-24: SSAP No. 71 – Levelized and Persistency Commissions – Issue Paper. Robin Marcotte (NAIC) stated that this issue paper documents the discussions that occurred during the development of the nonsubstantive revisions to *Statement of Statutory Accounting Principles (SSAP) No. 71—Policy Acquisition Costs and Commissions*, which are effective Dec. 31. She stated that the adoption of the nonsubstantive revisions to SSAP No. 71 has been through the entire committee adoption process; however, the issue paper was directed to document the discussions for historical retention purposes. In addition to the revisions to SSAP No. 71, the original agenda item also recommended a new annual statement general interrogatory to identify when a third-party has been utilized for the payment of commission expenses. This new general interrogatory was adopted by the Blanks (E) Working Group for annual 2021 reporting.

Ms. Belfi made a motion, seconded by Mr. Fry, to adopt *Issue Paper No. 165—Levelized Commissions* (Attachment One-F). The motion passed unanimously.

b. Agenda Item 2021-11

Mr. Bruggeman directed the Working Group to agenda item 2021-11: SSAP No. 43R – Credit Tenant Loans – Scope. Julie Gann (NAIC) stated that this agenda item was drafted as a result of the Valuation of Securities (E) Task Force's adopted revisions to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), which clarified that the definition of a credit tenant loan (CTL) is specific to mortgage loans in scope of *SSAP No. 37—Mortgage Loans*. She stated that the revisions clarify that the application of the structural assessment to identify CTLs is limited to direct mortgage loans and pertains to the potential reclassification of investments from Schedule B: Mortgage Loans to Schedule D-1: Long-Term Bonds for qualifying investments. In response to the P&P Manual revisions, this agenda item proposed three items: 1) to nullify *Interpretation (INT) 20-10: Reporting Nonconforming CTLs* as no longer applicable; 2) to dispose agenda item 2020-24: Accounting and Reporting of Credit Tenant Loans without statutory revisions; and 3) nonsubstantive revisions to *SSAP No. 43R—Loan-Backed and Structured Securities* to explicitly identified Securities Valuation Office (SVO)-identified CTLs in scope and delete references to examples of "other Loan-Backed and Structured Securities" in paragraph 27.b, as that paragraph is not a scope paragraph. Ms. Gann stated that INT 20-10 was proposed for formal nullification, with information on why the

INT is no longer relevant, even though the INT expired on Oct. 1. She stated that this documentation will provide the historical documentation on why the INT was not renewed or other statutory accounting revisions were not considered.

Mr. Fry made a motion, seconded by Mr. Clark, to: 1) nullify INT 20-10 as no longer applicable (Attachment One-G); 2) dispose agenda item 2020-24 without statutory revisions; and 3) adopt the exposed nonsubstantive revisions to SSAP No. 43R (Attachment One-H). The motion passed unanimously.

c. Agenda Item 2021-16

Mr. Bruggeman directed the Working Group to agenda item 2021-16: SSAP No. 30R – FHLB Disclosures – Blanks Referral. Jim Pinegar (NAIC) stated that this agenda item was to identify Federal Home Loan Bank (FHLB) borrowings that are captured in scope of *SSAP No. 52—Deposit-Type Contracts* and reported in Exhibit 7 – Deposit-Type Contracts. He stated that due to the varied reporting on Exhibit 7 based on differing policy forms, FHLB borrowings in Exhibit 7 were not readily identifiable to financial statement users. This agenda item did not propose statutory revisions but resulted in a proposal to the Blanks (E) Working Group to include a supplemental footnote for FHLB funding agreements in Exhibit 7.

Ms. Greiner made a motion, seconded by Mr. Bartlett, to adopt agenda item 2021-16 (Attachment One-I), noting no statutory revisions but support for the corresponding Blanks (E) Working Group proposal. The motion passed unanimously.

d. Agenda Item 2021-17

Mr. Bruggeman directed the Working Group to agenda item 2021-17: SSAP No. 32R – Permitted Valuation Methods. Mr. Pinegar stated that this agenda item removes a lingering reference indicating that historical cost is a permissible valuation method and introduces other minor consistency modifications to *SSAP No. 32R—Preferred Stock*.

Ms. Walker made a motion, seconded by Mr. Hudson, to adopt the exposed nonsubstantive revisions to SSAP No. 32R (Attachment One-J). The motion passed unanimously.

e. Agenda Item 2021-19EP

Mr. Bruggeman directed the Working Group to agenda item 2021-19EP: Editorial Updates. Ms. Marcotte stated that this agenda item contains minor editorial maintenance updates to the *Accounting Practices and Procedures Manual* (AP&P Manual). The updates correct paragraph references in *SSAP No. 16R—Electronic Data Processing Equipment and Software* and remove outdated guidance in SSAP No. 43R.

Ms. Weaver made a motion, seconded by Mr. Clark, to adopt the exposed nonsubstantive revisions to SSAP No. 16R and SSAP No. 43R (Attachment One-K). The motion passed unanimously.

3. Reviewed Comments on Exposed Items

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

a. Agenda Item 2021-18

Mr. Bruggeman directed the Working Group to agenda item 2021-18: VM-21 Scenario Consistency Update. Ms. Marcotte stated that this agenda item proposed edits to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* to ensure consistency with VM-21, Requirements for Principle-Based Reserves for Variable Annuities. She stated that interested parties provided potential edits to the exposure, and the edits were shared with a few of the Life Actuarial (A) Task Force representatives, who suggested additional revisions. In an effort to have the updates in place for year-end 2021 reporting, a shortened exposure period of the combined edits was recommended so the Working Group could consider via e-vote potential adoption in January 2022.

Michael M. Monahan (American Council of Life Insurers—ACLI) stated that the ACLI supports a shortened exposure period and an e-vote for possible adoption by the Working Group.

Mr. Chew made a motion, seconded by Mr. Hudson, to expose agenda item 2021-18 until Jan. 14, 2022. The motion passed unanimously.

b. Agenda Item 2021-14

Mr. Bruggeman directed the Working Group to agenda item 2021-14: Policy Statement Terminology Change – Substantive and Nonsubstantive. Ms. Gann stated that this agenda item was drafted in response to a Financial Condition (E) Committee referral, which identified during the SSAP No. 71 discussions (Ref #2019-24: SSAP No. 71 – Levelized and Persistency Commission) that the statutory accounting terminology of “substantive” and “nonsubstantive” to describe statutory accounting revisions could be misunderstood by users that are not familiar with the specific definitions and application of those terms. She stated that those not familiar with the AP&P maintenance process may incorrectly reference a material financial impact as “substantive”; however, the use of the term in the AP&P Manual was to reflect the introduction of a new statutory accounting concept. She stated that the terms do not consider potential financial impact, and the introduction of a new statutory accounting principles (SAP) concept is a substantive change, regardless of any financial impact to a company, and SAP clarifications are nonsubstantive, even if a company previously misapplied the existing guidance and could have a financial impact from correcting past practice. She stated that this agenda item proposes revisions in the NAIC Policy Statement on Maintenance of Statutory Accounting Principles (Policy Statement) to replace the term “substantive” with “new SAP concept” and replace “nonsubstantive” with “SAP clarification.” She stated that interested parties suggested removal of the classifications completely with assessment as to the appropriate effective date and discussion process for every agenda item. She stated that this proposal went beyond the referral from the Committee to not revise the basis in determining the type of statutory revisions and only revise terminology. In addition, the Working Group can deviate from established processes to have more discussion, an issue paper, and an effective date for nonsubstantive (SAP clarification) changes, and it has utilized that ability in the past. Ms. Gann stated that if this concept is further desired by industry, a separate agenda item from interested parties could sponsor this change for further consideration.

Ms. Belfi made a motion, seconded by Ms. Malm, to adopt the exposed nonsubstantive revisions to the Policy Statement (Attachment One-L). The motion passed unanimously.

4. Considered Maintenance Agenda – Pending Listing – Exposures

Mr. Hudson made a motion, seconded by Mr. Bartlett, to move agenda items 2021-20 through 2021-31 to the active listing and expose all items for public comment. The motion passed unanimously.

Mr. Bruggeman stated that the public comment period for all agenda items (except 2021-18 and 2021-31) ends Feb. 18, 2022. The public comment period for agenda items 2021-18 and 2021-31 ends Jan. 14, 2022.

a. Agenda Item 2021-20

Mr. Bruggeman directed the Working Group to agenda item 2021-20: Effective Derivatives – ASU 2017-12. Ms. Gann stated that this agenda item was drafted to consider expanding guidance in *SSAP No. 86—Derivatives* for what qualifies as a highly effective hedging derivative. She stated that the intent is to mirror effective hedging determinations that the Financial Accounting Standards Board (FASB) permits within *Accounting Standard Update (ASU) 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. While ASU 2017-12 was previously reviewed, the review was limited in scope and only adopted updates for hedging documentation, noting that a broader review would occur at a later date. Ms. Gann stated that both state insurance regulators and industry representatives requested further consideration of ASU 2017-12, particularly with regards to the permitted derivative arrangements that U.S. generally accepted accounting principles (GAAP) now allow to qualify as a highly effective hedge. She stated that in general, NAIC staff believe that if a hedging relationship is considered effective under U.S. GAAP, it should also be considered effective for statutory accounting. However, differences in the accounting between U.S. GAAP and statutory accounting need to be reviewed before those new effective hedging relationships are permitted to ensure the financial statement reporting and derivative impact is defined and understood. Ms. Gann stated that this agenda item will result in substantive revisions; however, the agenda item does not currently propose revisions but seeks public comment on several aspects in accordance with the current accounting and reporting provisions in SSAP No. 86. The agenda item details specifics, but she summarized a few items as follows:

- Partial Term Hedging – A provision that permits entities to enter into fair value hedges of interest rate risk for only a portion of the hedged financial instrument. Prior to ASU 2017-12, these arrangements were not generally successful



in being identified as highly effective due to timing differences between the underlying hedged item's principal payment and the maturity of the hedging instrument. However, for statutory accounting, this could cause an issue if the underlying item is a liability and the hedging transactions results in an adjustment to the "basis of the hedged item." Such an adjustment could result in a financial statement presentation that reduces the hedged liability when the contractual obligation has not actually been reduced, affecting the assessment of debt in the financial statements.

- Last of Layer – A provision that permits hedging in a closed portfolio of prepayable financial assets so that the items not expected to be affected by prepayments, defaults, and other factors affecting the timing and amount of cash flows are the underlying hedged item. In addition to U.S. GAAP specifications on how the derivative adjustments are reflected in the portfolio and not individual items, the guidance has the potential for derivative bifurcation so that a derivative can continue to effectively hedge one layer if another layer is no longer effective. The bifurcation of derivatives is not currently permitted in statutory accounting, and if changes are incorporated to allow this approach, the reporting of both the effective and noneffective portions of the hedging instrument will need to be determined.
- Expansion of Excluded Components – A provision that permits the ability to exclude a component from the assessment of hedge effectiveness. This also involves the bifurcation of derivatives and how the excluded components shall be reported for statutory accounting.

Mr. Bruggeman stated that the concepts in the agenda item will need significant input from both industry and state insurance regulators, especially with the reporting of derivatives and the resulting impact in the balance sheet. In addition to exposure, there was no objection to the recommendation for NAIC staff to work directly with industry to discuss and develop potential resolutions during the exposure period.

b. Agenda Item 2021-21

Mr. Bruggeman directed the Working Group to agenda item 2021-21: Related Party Reporting. Ms. Gann stated that this agenda item has been drafted in response to recent discussions on the reporting and disclosure requirements for investments that involve related parties. This agenda item clarifies the reporting of affiliate transactions within existing reporting lines in the investment schedules. The clarification is intended to be consistent with the definition of an affiliate pursuant to the *Insurance Holding Company System Regulatory Act* (#440), *SSAP No. 25—Affiliates and Other Related Parties*, and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*. Additionally, this agenda item incorporates new disclosures for investment transactions that involve related parties, regardless of whether the related party is classified as an affiliate. Ms. Gann stated that the agenda item proposes new reporting requirements so that direct investments, investments sponsored or originated by related parties, and investments with other related party involvement are specifically identified in the investment schedules using a new electronic column. She stated that the Blanks (E) Working Group is planning to expose a Blanks proposal to capture the new electronic columns for year-end 2022 reporting.

c. Agenda Item 2021-22

Mr. Bruggeman directed the Working Group to agenda item 2021-22: Schedule D-6-1, Supplemental Reporting. Mr. Pinegar stated that this agenda item proposes four additional data capture elements for Schedule D-6-1: Valuation of Shares of Subsidiary, Controlled or Affiliated Entities. He stated that SSAP No. 97 details several filing requirements, including a requirement for certain subsidiary, controlled, and affiliated entities (SCAs) to file information with the NAIC annually to support the values reported on Schedule D-6-1. If a reported value for a SCA investment materially differs from the value approved by the NAIC, the insurer is required to adjust the reported value in its next quarterly financial statement blank, unless otherwise directed by the insurer's state of domicile. Mr. Pinegar stated that upon review of the 2019 SCA filings, approximately 17% of all valuation filings resulted in valuation decreases, and some entities have year-after-year valuation decreases. This proposal to add four additional electronic-only columns will assist state insurance regulators in identifying that valuation filings are being submitted when required and identifying situations where the NAIC-approved value varies significantly from values reported on Schedule D-6-1. Mr. Pinegar stated that the supplemental data to be captured is consistent with existing disclosure requirements, so the agenda item does not propose statutory revisions, but it will result in a concurrent proposal to the Blanks (E) Working Group to include the new electronic columns in Schedule D-6-1. Mr. Bruggeman stated that he views this agenda item, which is recommended for exposure, as a way for state insurance regulators to perform reviews and reconciliations of SCA valuations more efficiently.

d. Agenda Item 2021-23

Mr. Bruggeman directed the Working Group to agenda item 2021-23: SSAP No. 43R – Financial Modeling Updated Guidance. Mr. Pinegar stated that this agenda item reflects updated NAIC designation/NAIC designation category guidance adopted on Oct. 20 by the Valuation of Securities (E) Task Force to the P&P Manual for residential mortgage backed securities (RMBS) and commercial mortgage backed securities (CMBS). He stated that while the P&P Manual governs the financial modeling process, when this guidance was first adopted, a summarized process was reflected in the AP&P Manual. However, as the financial modeling concept is no longer new and is governed by the Task Force, NAIC staff have proposed two alternatives for possible exposure. The first option will retain summarized financial modeling guidance in SSAP No. 43R, updated to reflect the changes by the Task Force. The second option will remove the financial modeling guidance from SSAP No. 43R and refer users to the source financial modeling guidance in the P&P Manual.

Mr. Bruggeman stated that his preference is to expose both options, seeking input as to which option is preferable to state insurance regulators and industry. Mr. Hudson stated that California supports exposing both options for public comment.

e. Agenda Item 2021-24

Mr. Bruggeman directed the Working Group to agenda item 2021-24: Cryptocurrency General Interrogatory. Jake Stultz (NAIC) stated that in May, the Working Group adopted *INT 21-01: Accounting for Cryptocurrencies*, which clarified that directly held cryptocurrencies do not reflect cash and do not meet the definition of an admitted asset. He stated that while researching this topic, it was noted that some insurance companies held cryptocurrencies, but these were not always easy to identify in the statutory financial statements. At the request of state insurance regulators, this agenda item has been drafted to propose a new general interrogatory within the annual reporting blanks specific to the use or acceptance of cryptocurrencies. The general interrogatory will capture whether cryptocurrencies are held (and if held, identification of which schedules the cryptocurrencies are reported) and whether cryptocurrencies are accepted for the payment of premiums. Mr. Stultz stated that while the agenda item is recommended for exposure and does not propose statutory revisions, it will result in a proposal to the Blanks (E) Working Group to add this new general interrogatory to the annual statement for year-end 2022 reporting.

f. Agenda Item 2021-25

Mr. Bruggeman directed the Working Group to agenda item 2021-25: Leasehold Improvement After Lease Termination. Mr. Stultz stated that in 2019, the Working Group adopted substantive revisions resulting in *SSAP No. 22R—Leases*. The updated guidance rejected financing lease treatment that was adopted in U.S. GAAP, but it incorporated language from Accounting Standards Codification (ASC) Topic 842, which kept SSAP No. 22R as consistent as possible with the primary concepts in the U.S. GAAP standard. This agenda item has been drafted to address questions about the treatment of leasehold improvements in situations where a leased property is purchased by the lessee during the lease term. It was noted that guidance for these situations was not addressed in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* or *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*. This agenda item proposes nonsubstantive revisions to SSAP No. 19 and SSAP No. 73 to clarify that in any scenario in which a lease terminates early, all remaining leasehold improvements shall be immediately expensed. This would include scenarios where the lease naturally terminates or when the lessee purchases a property it is leasing.

g. Agenda Item 2021-26EP

Mr. Bruggeman directed the Working Group to agenda item 2021-26EP: Editorial Updates (Substantive vs. Nonsubstantive). Mr. Pinegar stated that this agenda item is in response to the Working Group's adoption of agenda item 2021-14, which modifies the use of the terminology of "substantive" and "nonsubstantive" in the Policy Statement. This agenda item reviews all remaining uses of those terms throughout the AP&P Manual and recommends changes where appropriate. Mr. Pinegar stated that changes are recommended in the preamble, table of contents, summary of changes, and the Policy Statement (Appendix F). He stated that in addition, a file has been posted to identify every use of the terms and includes the rationale of why some were not proposed for modification. As the intent is to use the new phraseology going forward, starting on or after Jan. 1, 2022, historical documents are not proposed for revision.

h. Agenda Item 2021-27

Mr. Bruggeman directed the Working Group to agenda item 2021-27: *ASU 2021-04, Issuer's Accounting for Certain Modifications*. Mr. Stultz stated that this agenda item reviews *ASU 2021-04, Earnings Per Share (Topic 260), Debt—*

*Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options.* He stated that ASU 2021-04 directs that when a freestanding equity-classified written call option is modified or exchanged and the instrument remains classified as equity after the modification/exchange, the differences in fair value before and after the modification are to be accounted for as an adjustment to equity. However conversely, ASU 2021-04 directs that if the modification/exchange is related to a debt instrument or line-of-credit, the differences in fair value before and after the modification may be capitalized in accordance with U.S. GAAP debt issuance guidance, a concept disallowed per SSAP No. 15—*Debt and Holding Company Obligations*. Mr. Stultz stated that this agenda item proposes to reject ASU 2021-04 for statutory accounting; however, it also proposes nonsubstantive modifications to SSAP No. 72—*Surplus and Quasi-Reorganizations*, incorporating minor updates related to the accounting for changes in fair value involving the exchange of a free-standing equity-classified written call options.

i. Agenda Item 2021-28

Mr. Bruggeman directed the Working Group to agenda item 2021-28: ASU 2021-03, Intangibles – Goodwill and Other. Mr. Pinegar stated that this agenda item reviews *ASU 2021-03, Intangibles – Goodwill and Other – Accounting Alternative for Evaluating Triggering Events*. He stated that ASU 2021-03 provides private companies and not-for-profit entities with an optional accounting alternative for the performance of a goodwill impairment triggering evaluation. The amendments allow for the assessment of goodwill impairment only as of the end of a reporting period. Mr. Pinegar stated that statutory accounting's authoritative guidance regarding impairment is documented in INT 06-07: *Definition of Phrase "Other Than Temporary"* and does not permit the delay of an impairment assessment until a reporting period. He stated that this agenda item proposes nonsubstantive revisions to SSAP No. 68—*Business Combinations and Goodwill* to reject ASU 2021-03 for statutory accounting.

j. Agenda Item 2021-29

Mr. Bruggeman directed the Working Group to agenda item 2021-29: ASU 2021-05 – Variable Lease Payments. Mr. Stultz stated that this agenda item reviews *ASU 2021-05, Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*. He stated that ASU 2021-05 applies to lessors with lease contracts that have variable lease payments that do not depend on a reference index or rate and/or would have resulted in the lessor being required to recognize a day one selling loss (at lease commencement) if those leases were classified as sales-type or direct financing. He stated that SSAP No. 22R requires nearly all leases to be treated as operating leases, and adoption of this guidance would be redundant and unnecessary, so this agenda item proposes nonsubstantive revisions in SSAP No. 22R to reject ASU 2021-05.

k. Agenda Item 2021-30

Mr. Bruggeman directed the Working Group to agenda item 2021-30: ASU 2021-06 – Amendments to SEC Paragraphs. Mr. Stultz stated that this agenda item reviews *ASU 2021-06, Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946), Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants*. He stated that ASU 2021-06 provides formatting and paragraph references applicable to only U.S. Securities and Exchange Commission (SEC) registrants. This agenda item proposes nonsubstantive revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2021-06 as not applicable to statutory accounting.

l. Agenda Item 2021-31

Mr. Bruggeman directed the Working Group to agenda item 2021-31: Life Reinsurance Disclosure Clarifications. Ms. Marcotte stated that this agenda item is to address questions received from members of the American Institute of Certified Public Accountants' (AICPA) NAIC Task Force regarding the life reinsurance disclosures and the related audited notes that were first effective in December 2020. The disclosures were adopted in SSAP No. 61R—*Life, Deposit-Type and Accident and Health Reinsurance* from agenda item 2017-28: Reinsurance Risk Transfer for Short Duration Contracts. Ms. Marcotte stated that preparers and auditors have highlighted unclear elements in the disclosures and requested several clarifications, specifically whether the disclosures apply to ceding and assuming contracts, the format expected for the audited notes, and how broadly to interpret the scope of certain disclosures. The proposed nonsubstantive revisions to SSAP No. 61R narrow the scope and clarify what is required in the disclosures. In order to allow for a possible adoption for year-end 2021 reporting, a shortened exposure period of Jan. 14, 2022, was recommended.

Ms. Marcotte summarized the proposed revisions by paragraph:

- Paragraph 78 revision is to provide clarity that a supplemental table is not required if the answer is none or not applicable. The disclosure responses indicating that such features were identified could be either in the audited notes or the audited supplemental table.
- Paragraph 79 and 80 revisions provide clarity that the disclosure applies to ceding contracts.
- Paragraph 80 revisions are to narrow the scope of the risk limiting features disclosure, which is currently broadly written. The proposed revisions would not require disclosure of excess of loss and stop loss deductible and caps, which are not adjustable. She stated that such clauses are standard features in such contracts.
- Paragraph 82.b. revisions would remove the disclosure of non-proportional reinsurance that does not result in significant surplus relief, as the disclosure would only capture immaterial items.
- Paragraph 83 and 84 revisions pertain to U.S. GAAP to statutory accounting reporting differences of reinsurance contracts. The revisions clarify that if the entity is not a U.S. GAAP preparer or not included in upstream U.S. GAAP preparer financial statements, then the disclosure can be noted as not applicable. She stated that because of the *Life and Health Reinsurance Agreements Model Regulation* (#791), the life and health disclosure will capture more reinsurance contracts than the related property/casualty (P/C) disclosures.

Ms. Marcotte noted that subsequent to posting the national meeting materials, NAIC staff also received a question on whether the disclosure was intended to be comparative, meaning the current and prior year. Mr. Bruggeman stated that these disclosures will generally be comparative, but the proposed revisions could be prospective; therefore, prior year 2020 disclosures did not have to be updated with these disclosure changes. Otherwise, he stated that the disclosures should be comparative and include the current and prior year. He noted that the disclosures needed to be exposed to make sure that revisions do not remove state insurance regulator-desired disclosures. He stated agreement with the revisions in paragraphs 83 and 84 regarding non-U.S. GAAP filers. He noted that if early statutory filers submit information before any action is taken by the Working Group, more information may be disclosed than will ultimately be required; however, the clarifications would still assist auditors.

Mr. Monahan stated that the ACLI supports a shortened exposure period and an e-vote for possible adoption by the Working Group.

## 5. Discussed Other Matters

### a. Ref #2019-21: SSAP No. 43R – Update

Ms. Gann stated that this agenda item, now referred to as the principles-based bond proposal project, intends to define the type of instruments eligible for reporting on Schedule D-1. She provided a brief history of the project, noting that the principles-based definition was exposed in May with comments considered in August. She stated that as part of the direction in August to begin drafting an issue paper and statutory revisions, the Working Group directed ongoing discussions with state insurance regulators and industry to discuss and refine the principles-based bond definition. She stated that as a part of this continued discussion, two items are recommended for exposure. The first is a discussion document, which presents possible reporting changes to incorporate improved transparency and granularity in Schedule D-1. This document requests information on potential changes in reporting lines, a new sub-schedule for Schedule D-1 to detail certain asset-backed securities (ABS), and potential changes to the columns and information currently reported in Schedule D-1. A key proposed element is to move away from the current “general categories” for reporting and replace those groupings with more useful reporting lines based on investment type. The exposure reviews items for possible change consideration and specifically requests comments on the removal of the general categories and whether those changes would hinder any tools or analyses performed. Ms. Gann stated that in terms of a possible new Sub-Schedule D-1, this schedule could include non-traditional reporting items and additional informational items, such as balloon payments and expected payoff dates. In response to comments received from industry, this could also be an opportunity to review how other informational data elements are captured, reviewing for usefulness and relevance for state insurance regulators.

Ms. Gann stated that the second item recommended for exposure proposes revisions to the “sufficiency” definition previously captured in the bond proposal definition, specifically what is required for sufficient credit enhancement for an ABS to qualify for reporting on Schedule D-1. She stated that for an ABS to be reported on Schedule D-1, sufficient credit enhancement must be present so that the holder is in a different economic position than had they directly owned the underlying collateral. In response to comments received, the agenda item now reflects the use of the term “substantive” credit enhancement, as the prior term of “sufficient” was more akin to a credit evaluation, which was not in line with the proposed principal bond concepts.

Mr. Clark stated that the latest phraseology update is in line with the principal concepts, and it will prevent situations where items are placed in a special purpose vehicle (SPV) and the SPV then issues bonds to an insurer. This new phraseology will prevent these situations by ensuring that the bond holder is in a different economic position than had they held the underlying collateral directly. He stated that the updated phraseology corrects prior notions that a quantitative assessment is required to determine the amount of credit enhancement, which was beyond the scope of the project.

Michael Reis (Northwestern Mutual), representing interested parties, stated appreciation for state insurance regulators and NAIC staff for their continued collaboration on this project, noting that they support the principles-based approach and believe a workable solution will be achieved. He stated that several topics remain outstanding, which include transitional reporting (reporting of items that may ultimately move schedules), as well as the accounting and reporting of items that do not meet the principal concepts. Other items of concern to interested parties relate to risk-based capital (RBC) and may need to be addressed through the Capital Adequacy (E) Task Force; however, interested parties remain willing to assist in the project.

Ms. Gann stated that to be sensitive to the time commitments of industry for year-end reporting, the draft issue paper and possible statutory revisions will not be exposed until later in the first quarter of 2022. In addition, the earliest the new principal concepts could be adopted and reflected in Schedule D-1 is likely Jan. 1, 2024. She stated that thus far, the project has included updated reporting guidance of residual tranches and the formation of an informal coordination group involving the chairs/vice chairs of the Statutory Accounting Principles (E) Working Group, Valuation of Securities (E) Task Force, Capital Adequacy (E) Task Force, and related RBC working groups to discuss appropriate RBC charges for residual tranches and other potential RBC impacts from the development of the principles-based bond definition. In addition, several other items remain outstanding. Examples include defining an operating entity, which is required for an issuer obligation classification; when principal payment relies on refinancing; as well as transitional accounting and reporting guidance. Mr. Bruggeman stated that the intent of the informal coordination group is to ensure that all affected parties understand the types of investments that are being specifically addressed in the project, especially those that may be subject to RBC arbitrage.

Mr. Clark made a motion, seconded by Ms. Weaver, to expose the discussion draft of potential reporting options and the proposed revised guidance and related examples for defining and determining whether an ABS has substantive credit enhancement to qualify for reporting on Schedule D-1. The motion passed unanimously.

b. INT 20-03 and INT 20-07 – Troubled Debt Restructuring – COVID-19

Ms. Gann stated that *INT 20-03: Troubled Debt Restructuring Due to COVID-19* and *INT 20-07: Troubled Debt Restructuring of Certain Debt Instruments Due to COVID-19* were adopted in response to modifications that were being made to loans and debt securities in response to COVID-19. The adopted INTs provided exceptions to the application of guidance in *SSAP No. 36—Troubled Debt Restructuring*. The INTs were originally scheduled to expire as of Dec. 31, but they were extended to Jan. 2, 2022, in accordance with the extension of the Coronavirus, Aid, Relief, and Economic Security (CARES) Act. She stated that NAIC staff received informal comments that industry would not request an extension, and they recommended that the INTs automatically expire on Jan. 2, 2022.

Mr. Monahan stated that the ACLI recommends allowing INT 20-03 and 20-07 to expire on Jan. 2, 2022. With this commentary, the Working Group did not propose further consideration.

c. Review of GAAP Exposure

Ms. Gann stated that the FASB has two U.S. GAAP exposures open for public comment, both of which do not warrant comment from the Working Group. One exposure proposes removing the U.S. GAAP troubled debt restructuring guidance for lenders as no longer necessary under the U.S. GAAP current expected credit loss (CECL) standard. Ms. Gann stated that the proposed FASB revisions may cause further U.S. GAAP to statutory accounting differences, as the CECL standard has not been adopted for statutory accounting.

Ms. Gann stated that in addition to these updates, Insurance Core Principle (ICP) 14, the international standard for asset valuation, is undergoing review. NAIC staff are participating in these discussions and will keep the Working Group informed of any updates.

d. Referral to the Casualty Actuarial and Statistical (C) Task Force – Update

Ms. Marcotte stated that the Casualty Actuarial and Statistical (C) Task Force met Dec. 7 to initially discuss a presentation regarding the Working Group referral on agenda item 2019-49: Retroactive Reinsurance Exception regarding diversity in reporting for retroactive intercompany reinsurance contracts, which meet the exception and allow for prospective reporting. She stated that actions taken on Dec. 7 resulted in a 45-day exposure of the presentation. She stated that the largest issue to address is whether to allocate premium back to prior years on annual statement Schedule P when multiple years of premium are ceded to a reinsurer. She noted that no matter which methodology is used, such contracts produce distortions, and determining what will produce the most useful Schedule P information is relevant. A response from the Task Force is not anticipated until late in the first quarter or early in the second quarter of 2022. Ms. Marcotte also noted that there may be disconnects between some of the *SSAP No. 62R—Property and Casualty Reinsurance* guidance in paragraphs 36 and 37 and the intercompany pooling guidance in the annual statement instructions.

e. Key Items from the Maintenance Agenda

Ms. Gann provided an update on outstanding projects; a summary of each is as follows:

- *ASU 2016-13, Financial Instruments – Credit Losses*: At a minimum, this topic will require review of statutory accounting's incurred loss impairment guidance; however, multiple varying viewpoints and consideration will need to be made. One example provided is that the asset valuation reserve (AVR), a credit component utilized only by statutory accounting, could be a substitute for ASU 2016-13; however, only life companies are subject to AVR. While ASU 2016-13 has been delayed multiple times, its effective date for non-SEC filers is January 2023.
- Goodwill: While two agenda items remain outstanding (agenda item 2019-12: *ASU 2014-17, Business Combinations – Pushdown Accounting* and agenda item 2019-14: Attribution of Goodwill), additional disclosures are expected from the 2021 financials. Accordingly, NAIC staff recommend that these topics be deferred until the information from these new disclosures is shared with the Working Group.
- Derivatives Hedging Fixed Indexed Products: NAIC staff have identified this topic to be a priority project; however, the development of statutory revisions is currently paused as NAIC staff is monitoring discussions at the Index-Linked Variable Annuity (A) Subgroup. Prior Working Group and industry comments have noted that it would be ideal for both the reserve calculation and derivative guidance to move in tandem.
- State Affordable Care Act (ACA) Reinsurance Programs: This agenda item is to provide accounting and reporting guidance regarding state ACA reinsurance programs being run under Section 1332 waivers. NAIC staff will work with industry to develop additional revisions for Working Group consideration that expand the principles-based guidance to address the diversity in state programs identified in the prior exposure.

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

[https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/fall 2021/tf/app/sap/minutes/att one\\_sapwg minutes 12.11.21\\_tpr.docx](https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member%20meetings/fall%202021/tf/app/sap/minutes/att%20one_sapwg%20minutes%2012.11.21_tpr.docx)

Draft: 11/17/21

Statutory Accounting Principles (E) Working Group  
Virtual Meeting  
November 10, 2021

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Nov. 10, 2021. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears and Kevin Clark, Co-Vice Chairs (IA); Blase Abreo and Sheila Travis (AL); Kim Hudson (CA); William Arfanis (CT); Rylynn Brown (DE); Cindy Andersen and Kevin Fry (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Bob Kasinow (NY); Melissa Greiner and Kimberly Rankin (PA); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. Reviewed Comments on Exposed Items

The Working Group held a public hearing to review comments (Attachment One-A1) on previously exposed items.

a. Agenda Item 2021-15

Mr. Bruggeman directed the Working Group to agenda item 2021-15: SSAP No. 43R – Residual Tranches. Julie Gann (NAIC) stated that this agenda item provides updates to *SSAP No. 43R—Loan-Backed and Structured Securities* to clarify that securitization residual tranches shall be reported on Schedule BA: Other Long-Term Invested Assets and valued at the lower of cost or fair value. She stated that during the Working Group’s continued collaboration with industry representatives on the “Bond Proposal Project” (agenda item 2019-21: SSAP No. 43R), inconsistencies were identified regarding the reporting of residual tranches. From information received, some entities already report residual tranches on Schedule BA, while other entities report these tranches on Schedule D-1: Long-Term Bonds with either a self-assigned 5GI or a self-assigned NAIC 6 designation. She stated that the use of the NAIC 5GI process for residual tranches is an incorrect application of the guidance as: 1) there are no contractual interest and principal payments to certify as current; and 2) the insurer cannot have an actual expectation of receiving all anticipated principal and interest payments. Residual tranches absorb the first losses in a securitization structure and only receive cash flows after all other tranches receive their contractual cash flows. Thus, a reporting entity cannot have an actual expectation on the collection of future payments. Ms. Gann stated that comments received from interested parties indicate support for the reporting of residual tranches on Schedule BA. However, due to the proximity to year-end 2021, they requested a Dec. 31, 2022, effective date. In addition, if the residual tranches are permitted to remain on Schedule D-1 for year-end 2021, interested parties support the requirement to report these securities with an NAIC 6 designation.

Ms. Gann stated that NAIC staff recommend that the Working Group adopt the exposed revisions to SSAP No. 43R with edits proposed by interested parties, which include a Dec. 31, 2022, effective date (with early adoption permitted). Additionally, NAIC staff recommend a memorandum from both the Working Group and the Valuation of Securities (E) Task Force to the Blanks (E) Working Group to clarify that self-assigned NAIC 5GI designations are not permitted for residual tranches, and such items reported on Schedule D-1 for year-end 2021 are required to be reported with an NAIC 6 designation. She stated that NAIC staff also recommend a referral to the Task Force with a request to clarify the *Purposes and Procedures Manual of the NAIC Investment Office* (P&P Manual) to mitigate future misapplication of the NAIC 5GI process.

Diane Bellas (Allstate), representing interested parties, stated that no further comments are offered on this agenda item. However, interested parties appreciate the ongoing collaboration and the consideration of interested parties’ comments and support adoption with the edits as recommended by NAIC staff.

Mr. Clark made a motion, seconded by Ms. Walker, to adopt agenda item 2021-15 and the exposed nonsubstantive revisions to SSAP No. 43R, with the edits presented by NAIC staff (Attachment One-A2). The motion also included direction for NAIC staff to provide: 1) a memorandum to the Blanks (E) Working Group to direct that self-assigned NAIC 5GI designations are not permitted for residual tranches, and such items reported on Schedule D-1 are required to be reported with an NAIC 6 designation; and 2) a referral to the Valuation of Securities (E) Task Force recommending that the Task Force consider edits to the P&P Manual to clarify the application of the NAIC 5GI process. The motion passed unanimously.

b. Agenda Item 2021-12EP

Mr. Bruggeman directed the Working Group to agenda item 2021-12EP: Editorial Updates. Robin Marcotte (NAIC) stated that the agenda item provides five editorial maintenance updates to the *Accounting Practices and Procedures Manual* (AP&P Manual). Four of the updates include minor formatting or revisions for consistency to the *Preamble*, *Appendix A-001*, *Appendix C*, and *Appendix C-2*. Ms. Marcotte stated that the remaining edit includes a minor update to improve the readability of the guidance for securities receivables in *SSAP No. 21R—Other Admitted Assets*.

Mr. Hudson made a motion, seconded by Ms. Malm, to adopt the exposed nonsubstantive editorial revisions to the *Preamble*, *Appendix A-001*, *Appendix C*, *Appendix C-2*, and *SSAP No. 21R* (Attachment One-A3). The motion passed unanimously.

c. Agenda Item 2021-13

Mr. Bruggeman directed the Working Group to agenda item 2021-13: Salvage – Legal Recoveries. Ms. Marcotte stated that this agenda item recommended nonsubstantive revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* to clarify that salvage and subrogation estimates and recoveries should be reported as a reduction to both claims/losses and loss adjusting expenses (LAE), as appropriate. She stated that while this practice is believed to already be consistent with the current practice of most reporting entities, the revisions clarify that salvage and subrogation estimates and recoveries can include amounts related to both claims/losses and LAE. The corresponding estimates should be reported as a reduction of losses and/or LAE reserves. However once the amounts for salvage and subrogation and coordination of benefits are received, they shall be reported as a reduction of paid losses and LAE depending on the nature of the costs being recovered. Ms. Marcotte stated that notice of this exposure was sent to the Casualty Actuarial and Statistical (C) Task Force, the Life Actuarial (A) Task Force, and the Health Actuarial (B) Task Force, and no comments were received. She stated that interested parties are supportive of the proposal, which also included an updated disclosure related to the reporting of estimated salvage and subrogation and their impact on unpaid claims, losses, or associated LAE.

Ms. Weaver made a motion, seconded by Mr. Kasinow, to adopt the exposed nonsubstantive revisions *SSAP No. 55* (Attachment One-A4). The motion passed unanimously.

d. INT 21-02T

Mr. Bruggeman directed the Working Group to Interpretation (INT) 21-02T: Extension of the Ninety-Day Rule for the Impact of Hurricane Ida. Jake Stultz (NAIC) stated that this interpretation provides a 60-day extension to the “90-day rule” in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers* for policies affected by Hurricane Ida. He stated that the optional, temporary extension is supported by interested parties and would apply to uncollected premium balances, bills receivable for premiums, and amounts due from agents and policyholders and would automatically nullify on Jan. 24, 2022. The optional extension applies to year-end 2021 reporting. However, as it expires in January 2022, the INT will be reflected in *Appendix H – Superseded SSAPs and Nullified Interpretations* in the “As of March 2022” edition of the AP&P Manual.

Mr. Hudson made a motion, seconded by Ms. Brown, to adopt *INT 21-02: Extension of the Ninety-Day Rule for the Impact of Hurricane Ida* (Attachment One One-A5). The motion passed unanimously.

Ms. Gann stated that the next Working Group meeting is expected to occur in-person on Dec. 11 in San Diego, CA. This meeting will be held as part of the Fall National Meeting and will be immediately followed by the Accounting Practices and Procedures (E) Task Force meeting. She stated that an audio option is available for individuals that register for the meeting. However, it is unknown at this time if that option will permit those registrants the ability to speak. She stated that information is available on the NAIC National Meeting web page.

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

[https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/fall 2021/tf/app/sap/minutes/att one-a\\_sapwg minutes 11.10.21tpr.docx](https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member%20meetings/fall%202021/tf/app/sap/minutes/att%20one-a_sapwg%20minutes%2011.10.21tpr.docx)



**Statutory Accounting Principles (E) Working Group  
November 10, 2021 – Interim Call  
Comment Letters Received**

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Interested Parties – October 22, 2021 <ul style="list-style-type: none"><li>○ Ref #2021-15: SSAP No. 43R – Residual Tranches</li></ul>	2-5
Interested Parties – October 1, 2021 <ul style="list-style-type: none"><li>○ Ref #2021-11: SSAP No. 43R – Credit Tenant Loans - Scope</li><li>○ Ref #2021-12EP: Editorial Updates</li><li>○ Ref #2021-13: Salvage – Legal Recoveries</li><li>○ Ref #2021-14: Policy Statement Terminology Change – Substantive and Nonsubstantive</li><li>○ INT 21-02T: INT 21-02T – Hurricane Ida</li><li>○ Ref #2019-24: SSAP No. 71 – Levelized and Persistency Commission (Issue Paper)</li></ul>	6-9

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October 22, 2021

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: Ref #2021-15, SSAP No. 43R-Residual Tranches

Dear Mr. Bruggeman:

Interested parties (“IPs”) appreciate the opportunity to comment on the Statutory Accounting Principles Working Group (the Working Group) proposal Ref #2021-15, SSAP No. 43R-Residual Tranches (“the proposal”).

The proposal would require certain modifications to SSAP No. 43R to report non-rated residual tranches or interests, currently in the scope of SSAP No. 43R, on Schedule BA as Other Long-Term Invested Assets at lower of cost or market. Also proposed is that a footnote be added to further define “non-rated residual tranches or interests” as follows:

“Reference to “non-rated residual tranches or interests” intends to capture securitization tranches, beneficial interests, interests of structured finance investments, as well as other structures captured in scope of this statement, that reflect loss layers without contractual interest or principal payments. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment’s duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.”

IPs have the following comments related to the proposal:

- 1) IPs agree that residual tranches or interests in scope of SSAP No. 43R, which meet the definition in the proposed footnote, should be reported on Schedule BA at lower of cost or market (“LOCOM”).

Some companies already report such investments on Schedule BA and others report them on Schedule D measured at either LOCOM or amortized cost. We believe the proposed

change in reporting would be cost justified as it would not be overly burdensome to insurers and would provide consistent reporting by insurers. It also would provide additional information for regulators to continue to evaluate such investments.

- 2) IPs believe an effective date of 12/31/2021 is achievable with regard to rating all residual tranches in the scope of SSAP No. 43R as NAIC 6. However, for various reasons noted below, IPs do not believe it would be feasible to transfer those residual tranches currently reported on Schedule D to Schedule BA for year-end 2021 reporting.

In conversations with NAIC staff and regulators, while working on the Working Group's Bond Project (formerly known as the 43R Project), IPs have been asked if adopting the proposal effective 12/31/2021 is feasible and also if reporting such interests on Schedule BA separately depending on the underlying collateral (e.g., fixed income, equity, real estate, etc.; same categories that currently exist on Schedule BA) would be feasible beginning at year-end 2022.

IPs believe that the 12/31/2021 reporting is not feasible as it would be operationally difficult to change processes in a timely manner prior to year-end reporting, including any vendor modifications that would be required, as well as address downstream implications such as impacts on cash flow statements and investment schedule rollforwards, etc., to ensure there are no unintended consequences related to the various statutory blanks and related processes. IPs support making such a change beginning at year-end 2022 and support the more granular reporting requested (i.e., based on underlying collateral) as it will allow the requisite amount of time to address those operational items discussed above. IPs also support allowing those companies that can address their processes prior to year-end 2021, the opportunity to transfer the residual tranches in scope from Schedule D to BA in 2021. It is important that the Working Group make companies aware that (1) the transfer of residual tranches to Schedule BA is optional for year-end 2021/quarterly 2022 and (2) if they choose to transfer the residual tranches to Schedule BA at year-end 2021, they would also be required to transfer them at year-end 2022 into the more granular categories discussed above based on underlying collateral (e.g., equities, fixed income, real estate, etc.). For those companies that decide to transfer the residual tranches in 2021, Blanks instructions would be needed well in advance of year-end to provide clarity related to the following:

- The specific section and subsection of Schedule BA where the residual tranches and interests in scope of this proposal would be reported.
- How the various existing columns of Schedule BA would be used for such investments. For example, Schedule BA "cost" would be used to report "amortized cost" for such investments.
- Communicating that LOCOM would be applied to such investments and clarifying where both amortized cost and fair value would be reported on the existing Schedule BA.

3) IPs recommend certain modifications to the proposed footnote and changes to SSAP No. 43R as follows:

- Eliminate the reference to “non-rated” in paragraphs 26a, b, and c and the proposed footnote. IPs recommend eliminating the reference to non-rated as its definition may be interpreted inconsistently by various insurers (e.g., rated by the NAIC, rated by an NRSRO, insurer-rated such as NAIC 5 or 6?). We believe the intent is to exclude from Schedule D reporting, those investments that are typically not rated in the investment markets because their characteristics are not debt-like (e.g., no contractual payments of principal and/or interest) and thus we believe the inclusion of only the criteria “no contractual payments of principal and/or interest” will capture all investments intended to be captured.
- IPs recommend removing the term “structured finance investments” from the footnote as it is an undefined term and is not clear to IPs as to what it is intended to capture. We believe retaining the references to “securitization tranches and beneficial interests” is adequate and would be understood to include all those investments intended by the regulators to be in the scope of the proposal.
- IPs recommend modifying the footnote to include those investments “...that reflect loss layers without contractual interest or principal payments” to those investments “...that reflect loss layers without any contractual payments, whether principal, interest, or both”. This proposed change would be more complete and “all-encompassing”.
- Ensure LOCOM is clarified to be “lower of **amortized cost** or market”. The use of the term “amortized cost” versus “cost” more accurately reflects the type of investment and is more aligned with the use of the term in existing SSAP No. 43R.

The following proposal reflects IPs comments discussed above as related to the footnote:

“Reference to “residual tranches or interests” intends to capture securitization tranches and beneficial interests as well as other structures captured in scope of this statement, that reflect loss layers without any contractual payments, whether principal, interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment’s duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.”

We would be happy to discuss any of our recommendations above and appreciate the continued dialogue related to this topic and the overall Bond Project among the Working Group, NAIC Staff, Regulators, and IPs.

\* \* \*

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

cc: NAIC staff  
Interested parties

[Att One-A1a dkb2354](#)

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October 1, 2021

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: Items Exposed for Comment by the Statutory Accounting Principles Working Group on August 26, 2021 with Comments due October 1, 2021

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the exposure drafts released for comment by the NAIC Statutory Accounting Principles (E) Working Group (the Working Group). We offer the following comments:

**Ref #2021-11 SSAP No. 43R**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed the following:

1. Revisions to *SSAP No. 43R—Loan-Backed and Structured Securities*, as illustrated in the proposal, to explicitly identify the SVO-Identified CTLs that are in scope of SSAP No. 43R. These revisions also propose to delete the examples of “other loan-backed and structured securities” in paragraph 27.b. Comments are requested if this deletion is perceived to remove investments from the scope of SSAP No. 43R.
2. Request for comment on the Working Group’s intent to nullify INT 20-10. (This INT nullifies automatically on Oct. 1, 2021, but it is anticipated that the explicit nullification will identify the revisions adopted by the VOSTF for historical reference.)
3. Disposal of agenda item 2020-24: Accounting and Reporting of Credit Tenant Loans without statutory revisions. This was the agenda item in response to the initial VOSTF referral and is no longer applicable with the adopted Task Force edits to clarify that CTLs are mortgage loans in scope of SSAP No. 37.

Interested parties have no comment on this item.

**Ref #2021-12 NAIC Accounting Practices and Procedures Manual Editorial and Maintenance Update**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed editorial revisions to the Preamble, *Appendix A-001: Investments of Reporting Entities*, *Appendix C Actuarial Guidelines – Appendices*, *Appendix C-2 Interpretations of the Emerging Actuarial Issues (E) Working Group*, and *SSAP No. 21R—Other Admitted Assets*, as illustrated in the proposal.

Interested parties have no comment on this item.

**Ref #2021-13 SSAP No. 55: Salvage - Legal Recoveries**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and took the following actions:

1. Exposed revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*, as illustrated in the proposal, to clarify that salvage and subrogation recoveries should be reported as a reduction of losses and/or loss adjusting expense (LAE reserves), depending on the nature of the costs being recovered. In addition, updates to the disclosure in paragraph 17.h. were exposed.
2. Directed NAIC staff to coordinate develop conforming revisions to the Annual Statement instructions.
3. Directed notification of the exposure to the following actuarial Task Forces:
  - a. Casualty Actuarial and Statistical (C) Task Force,
  - b. Life Actuarial (A) Task Force, and
  - c. Health Actuarial (B) Task Force

Interested parties support this proposal.

**Ref #2021-14 Policy Statement Terminology Change – Substantive & Nonsubstantive**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, as illustrated in the proposal and suggested by the Financial Condition (E) Committee in their Aug. 14, 2021, referral, to alter the terminology used when discussing types of statutory accounting revisions.

After some discussion and consideration of the proposal and its impact on the implementation of new statutory accounting standards, interested parties concluded that the distinction between substantive (proposed change to “development of new SSAPs or New SAP Concepts in an

Existing SSAPs”) and non-substantive (proposed to change to “Development of SAP Clarifications”) is at times confusing and that there would be more transparency in the development process if the distinction were eliminated. Instead, we recommend that all new standards be handled similarly but that the effective date for each new standard be determined by evaluating the complexity of implementation (e.g., the extent that systems changes are required) and the availability of data to insurers to implement the new standard. This determination would be made as the new standard is being completed and with feedback from industry as to the time needed to adopt the new requirements.

#### **INT 21-02T: Extension of Ninety-Day Rule for the Impact of Hurricane Ida**

The Working Group reached a tentative consensus for a one-time optional extension of the ninety-day rule for uncollected premium balances, bills receivable for premiums and amounts due from agents and policyholders required per SSAP No. 6, paragraph 9. For policies in effect as of the declaration of a state of emergency by either the states, U.S. territories or federal government, as described in paragraph 1, insurers with policyholders in areas impacted by Hurricane Ida, its aftermath and the related flooding may wait 150 days (90 days per existing guidance, plus a 60-day extension), not to extend beyond Jan. 23, 2022, before nonadmitting premiums receivable from those directly impacted policyholders as required per SSAP No. 6, paragraph 9. b. Existing impairment analysis remains in effect for these affected policies.

The Working Group noted that a temporary sixty day (60) extension had previously been provided for other nationally significant disasters including INT 20-11: Extension of Ninety-Day Rule for the Impact of 2020 Hurricanes, California Wildfires and Iowa Windstorms, INT 18-04: Extension of Ninety-Day Rule for the Impact of Hurricane Florence and Hurricane Michael; INT 17-01: Extension of Ninety-Day Rule for the Impact of Hurricane Harvey, Hurricane Irma and Hurricane Maria; INT 13-01: Extension of Ninety-Day Rule for the Impact of Hurricane/Superstorm Sandy; and INT 05-04: Extension of Ninety-day Rule for the Impact of Hurricane Katrina, Hurricane Rita and Hurricane Wilma.

This interpretation will be automatically nullified on Jan. 24, 2022 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “As of March 2022” *NAIC Accounting Practices and Procedures Manual*.

Interested parties support this proposal.

#### **Ref #2019-24 SSAP No. 71: Levelized Commissions**

The Working Group exposed Issue Paper No. 16x: Levelized Commissions to document the historical discussion and final action adopted through the Executive Committee/Plenary.

Interested parties have no further comment on this item.

\* \* \*



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

cc: NAIC staff  
Interested parties

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**Statutory Accounting Principles (E) Working Group  
Maintenance Agenda Submission Form  
Form A**

**Issue:** SSAP No. 43R – Residual Tranches

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** Although the broad principles-based bond proposal project is establishing principles for reporting investments on Schedule D-1: Long-Term Bonds, it has been identified that there is current inconsistency in practice for the reporting of non-rated residual tranches for structures captured in scope of *SSAP No. 43R—Loan-Backed and Structured Securities*. To address this current inconsistency, it has been requested that revisions occur as an interim step to provide specific accounting and reporting for these items.

As background information, SSAP No. 43R provides guidance for investments in loan-backed and structured securities, as well as purchased and retained beneficial interests in securitized financial assets. The guidance presumes that the investments within scope reflect fixed-income instruments, particularly with the Schedule D-1: Long-Term Bond reporting as well as the amortized cost measurement method, but it has been identified that non-rated, first loss layers without contractual principal or interest (known as residual tranches or interests) are technically captured within the legal-form structure currently permitted within scope of the guidance.

As part of the principles-based bond project discussions, it has been identified that some entities report these residual investments on Schedule BA: Other Long-Term Investments. However, it has been noted that other entities report these residual tranches on Schedule D-1, as in scope of SSAP No. 43R. Since items on Schedule D-1 are required to have NAIC designations, and these tranches are not (and cannot be) rated from a CRP or receive an NAIC designation, some entities have applied the “NAIC 5GI” process to self-assign an NAIC 5 designation. For life entities, an NAIC 5 permits an amortized cost valuation and for all lines of business a NAIC 5 receives a lower RBC charge than what is received if reporting on Schedule BA.

The NAIC 5GI process permits entities to self-assign an NAIC 5 when they can certify to the following three components:

1. Documentation necessary to permit a full credit analysis of the security does not exist or an NAIC CRP ratings for an FE or PL security is not available.
2. The issuer or obligor is current on all contracted interest and principal payments.
3. The insurer has an actual expectation of ultimate payment of all contracted interest and principal payments.

Use of the NAIC 5GI process for non-rated residual investments is an incorrect application of the guidance as 1) there are no contracted interest and principal payments to certify as current and 2) the insurer cannot have an actual expectation of receiving all contractual principal and interest of the underlying collateral as these tranches absorb the losses first for the securitization structure. Although cash flows may pass through to these holders at periodic intervals in the waterfall, ultimate returns depend on continued performance, therefore, there can be no actual expectation that future payments will be received.

From the discussions that have occurred on the principles-based bond project, there is general agreement that these non-rated residual tranches do not belong on Schedule D-1 as long-term bonds. This agenda item proposes minor revisions to SSAP No. 43R, as an interim action in advance of the adoption of the principles-based bond project, to prescribe the accounting and reporting for these non-rated residual investments to ensure consistent reporting. As detailed, it is proposed that these items remain in scope of SSAP No. 43R, as they are a component of a securitization, with specific guidance to report on Schedule BA with a lower of cost or fair value measurement.

#### **Existing Authoritative Literature:**

##### **Reporting Guidance for All Loan-Backed and Structured Securities**

26. Loan-backed and structured securities shall be valued and reported in accordance with this statement, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, and the designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office or equivalent specified procedure. The carrying value method shall be determined as follows:
  - a. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed and structured securities shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value.
  - b. For reporting entities that do not maintain an AVR, loan-backed and structured securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

**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):** The Statutory Accounting Principles (E) Working Group has a comprehensive project to establish principles-based concepts for the definition for bond investments for reporting on Schedule D-1: Long-Term Bonds. This separate agenda item was directed as an interim action on Aug. 26, 2021, as it was identified that there is inconsistent reporting for non-rated residual tranches, with some entities reporting these non-rated loss-layer investments on D-1 with a self-assigned NAIC 5GI designation.

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

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

#### **Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a new SAP concept, and expose revisions to SSAP No. 43R to establish specific accounting and reporting guidance for non-rated residual tranches or interests. Additionally, it is recommended that the Working Group sponsor a blanks proposal to capture a new reporting line specific for these items on Schedule BA and send a referral to the Valuation of Securities (E) Task Force to identify that the NAIC 5GI process shall not be used to self-assign an NAIC designation to non-rated residual investments.

**Proposed edits to SSAP No. 43R:**

## Reporting Guidance for All Loan-Backed and Structured Securities

26. Loan-backed and structured securities shall be valued and reported in accordance with this statement, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, and the designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office or equivalent specified procedure. The carrying value method shall be determined as follows:

- a. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed and structured securities, excluding non-rated residual tranches or interests, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value.
- b. For reporting entities that do not maintain an AVR, loan-backed and structured securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), excluding non-rated residual tranches or interests, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.
- c. For non-rated residual tranches or interests<sup>FN</sup> captured in scope of this statement, all reporting entities (regardless of AVR) shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses.

**New Footnote:** Reference to “non-rated residual tranches or interests” intends to capture securitization tranches, beneficial interests, interests of structured finance investments, as well as other structures captured in scope of this statement, that reflect loss layers without contractual interest or principal payments. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment’s duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.

**Staff Review Completed by:** Julie Gann, NAIC Staff – September 2021

### Status:

On September 9, 2021, in response to an e-vote to expose, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 43R—Loan-Backed and Structured Securities* to clarify that non-rated residual tranches shall be reported on Schedule BA – Other Long-Term Investments and valued at the lower of cost or fair value.

On November 10, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, exposed revisions to *SSAP No. 43R—Loan-Backed and Structured Securities*, incorporating edits proposed by interested parties and clarifying application of IMR/AVR, as illustrated below. The revisions clarify that residual tranches or interests shall be reported on Schedule BA – Other Long-Term Investments and valued at the lower of amortized cost or fair value. While the revisions are nonsubstantive in nature, the guidance is effective Dec. 31, 2022, with early application permitted. (This means that reporting entities can continue reporting on Schedule D-1: Long-Term Bonds for 2021 but could reclassify the instruments to Schedule BA – Other Long-Term Investments utilizing the “Other” or another Schedule BA reporting line that is appropriate for the investment for year-end 2021.) In addition,

the Working Group provided guidance to the Blanks (E) Working Group to clarify that a self-assigned NAIC 5GI is not permitted for residual tranches, and such items reported on Schedule D-1 for year-end 2021 are required to be reported with an NAIC 6 designation.

### **Adopted revisions to SSAP No. 43R**

26. Loan-backed and structured securities shall be valued and reported in accordance with this statement, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, and the designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office or equivalent specified procedure. The carrying value method shall be determined as follows:

- a. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed and structured securities, excluding residual tranches or interests, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value.
- b. For reporting entities that do not maintain an AVR, loan-backed and structured securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), excluding residual tranches or interests, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.
- c. For residual tranches or interests<sup>FN</sup> captured in scope of this statement, all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.

**New Footnote:** Reference to “residual tranches or interests” intends to capture securitization tranches and beneficial interests as well as other structures captured in scope of this statement, that reflect loss layers without any contractual payments, whether principal or interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment’s duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.

56. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—*Accounting Changes and Corrections of Errors*. Subsequent revisions to this statement include:

- a. Substantive revisions pertaining to valuation and impairment based on expected cash flows, as detailed in *Issue Paper No. 140—Substantive Revisions to SSAP No. 43—Loan-Backed and Structured Securities*, were effective September 30, 2009. (Transition guidance previously included in SSAP No. 43R was removed from the SSAP in the *As of March 2018 Accounting Practices and Procedures Manual* but is retained for historical purposes in the issue paper.)

- b. Substantive revisions to incorporate a new method to determine the final NAIC designation were effective, on a prospective basis, for reporting periods ending on or after December 31, 2009. In 2011, revisions were incorporated to this process to be consistent with the (P&P Manual). These revisions expanded the guidance to explicitly detail the process for “financial modeling” and “modified filing exempt” securities.
- c. Nonsubstantive revisions to clarify the accounting for gains and losses between AVR and IMR securities were adopted in June 2010 with a January 1, 2011, effective date with early application allowed. Reporting entities that had previously bifurcated gains and losses between AVR and IMR for sale transactions were restricted from reversing prior bifurcations and were prohibited from reverting to a process that did not bifurcate gains and losses in the period between adoption and the effective date.
- d. Nonsubstantive revisions, reflected in paragraph 50, to incorporate guidance from *INT 00-11: EITF 98-15: Structured Notes Acquired for a Specified Investment Strategy* were effective September 11, 2000.
- e. Nonsubstantive revisions pertaining to the calculation of investment income for prepayment penalty and/or acceleration fees, reflected in paragraph 13, were effective January 1, 2017, on a prospective basis with early application permitted.
- f. Nonsubstantive revisions to eliminate the modified filing exempt (MFE) method were effective March 31, 2019, with early adoption permitted for year-end 2018. Early adoption was considered an “all or nothing” approach. As such, reporting entities that did not elect to early adopt were required to apply the MFE process to all applicable SSAP No. 43R securities as of year-end 2018, whereas reporting entities that elected to early adopt were not permitted to use the MFE process for any SSAP No. 43R securities for year-end 2018.
- g. Revisions adopted April 2019 to explicitly include mortgage-referenced securities in scope of this statement are effective December 31, 2019.
- ~~g.~~h. Nonsubstantive revisions adopted in November 2021 to clarify that residual tranches or interests (as defined in footnote ) shall be reported at the lower of amortized cost or fair value on Schedule BA: Other Invested Assets are effective December 31, 2022. Reporting entities may elect to reclassify residual tranches or interests to Schedule BA in advance of the effective date. As of the effective date, residual tranches or interests previously reported on Schedule BA shall be reclassified to the appropriate residual tranche Schedule BA reporting line based on the underlying characteristics of the investment structure.

**NAIC Accounting Practices and Procedures Manual  
Editorial and Maintenance Update  
August 26, 2021**

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting.

SSAP/Appendix	Description/Revision
Preamble	Incorporates a paragraph number for the existing statutory hierarchy section.
Appendix A-001	Updates designation codes for preferred stock as noted in section 2 of <i>Appendix A-001: Investments of Reporting Entities</i> .
Appendix C	Updates reference to the <i>former</i> Emerging Actuarial Issues (E) Working Group as well as adding reference to the Valuation Analysis (E) Working Group's use of included interpretations.
Appendix C-2	Updates reference to the <i>former</i> Emerging Actuarial Issues (E) Working Group as well as adding reference to the Valuation Analysis (E) Working Group's use of included interpretations.
SSAP No. 21R	Updates improve the readability of paragraph 9 regarding receivables for securities.

**Recommendation:**

NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorize as nonsubstantive, and expose editorial revisions as illustrated below.

**Status:**

On August 26, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed editorial revisions to the Preamble, *Appendix A-001: Investments of Reporting Entities*, *Appendix C Actuarial Guidelines – Appendices*, *Appendix C-2 Interpretations of the Emerging Actuarial Issues (E) Working Group*, and *SSAP No. 21R – Other Admitted Assets*, as illustrated below.

On November 10, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to the Preamble, *Appendix A-001: Investments of Reporting Entities*, *Appendix C Actuarial Guidelines – Appendices*, *Appendix C-2 Interpretations of the Emerging Actuarial Issues (E) Working Group*, and *SSAP No. 21R – Other Admitted Assets*, as illustrated below.

**Preamble**

41. The multitude of unique circumstances and individual transactions makes it virtually impossible for any codification of accounting principles to be totally comprehensive. Application of SAP, either contained in the SSAPs or defined as GAAP and adopted by the NAIC, to unique circumstances or individual transactions should be consistent with the concepts of conservatism, consistency, and recognition.

## V. Statutory Hierarchy

42. The following Hierarchy is not intended to preempt state legislative and regulatory authority.

### Level 1

- SSAPs, including U.S. GAAP reference material to the extent adopted by the NAIC from the FASB Accounting Standards Codification<sup>[1]</sup> (FASB Codification or GAAP guidance)

### Level 2

- Consensus positions of the Emerging Accounting Issues (E) Working Group as adopted by the NAIC (INTs adopted before 2016)
- Interpretations of existing SSAPs as adopted by the Statutory Accounting Principles (E) Working Group (INTs adopted in 2016 or beyond)

### Level 3

- NAIC Annual Statement Instructions
- Purposes and Procedures Manual of the NAIC Investment Analysis Office

### Level 4

- Statutory Accounting Principles Preamble and Statement of Concepts<sup>[2]</sup>

### Level 5

- Sources of nonauthoritative GAAP accounting guidance and literature, including: (a) practices that are widely recognized and prevalent either generally or in the industry, (b) FASB Concept Statements, (c) AICPA guidance not included in FASB Codification, (d) International Financial Reporting Standards, (e) Pronouncements of professional associations or regulatory agencies, (f) Technical Information Service Inquiries and Replies included in the AICPA Technical Practice Aids, and (g) Accounting textbooks, handbooks and articles

43.2. If the accounting treatment of a transaction or event is not specified by the SSAPs, preparers, regulators and auditors of statutory financial statements should consider whether the accounting treatment is specified by another source of established statutory accounting principles. If an established statutory accounting principle from one or more sources in Level 2 or 3 is relevant to the circumstances, the preparer, regulator or auditor should apply such principle. If there is a conflict between statutory accounting principles from one or more sources in Level 2 or 3, the preparer, regulator or auditor should follow the treatment specified by the source in the higher level—that is, follow Level 2 treatment over Level 3. Revisions to guidance in accordance with additions or revisions to the NAIC statutory hierarchy should be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

<sup>[1]</sup> Effective September 15, 2009, the FASB Codification is the source of authoritative U.S. generally accepted accounting principles. As of that date, the FASB Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the FASB Codification is nonauthoritative. As of September 15, 2009, AICPA Statements of Position are no longer reviewed as part of the statutory maintenance process as they are no longer considered authoritative GAAP literature. If the AICPA were to address an issue that affects the FASB Codification, an accounting standard update (ASU) would be issued and reviewed for applicability to statutory accounting.



<sup>[2]</sup> The Statutory Accounting Principles Statement of Concepts incorporates by reference FASB Concepts Statements One, Two, Five and Six to the extent they do not conflict with the concepts outlined in the statement. However, for purposes of applying this hierarchy the FASB Concepts Statements shall be included in Level 5 and only those concepts unique to statutory accounting as stated in the statement are included in Level 4.

### **Appendix A-001 Investments of Reporting Entities**

Update designation codes for preferred stock – the codes marked for deletion are no longer in use. Note: the blanks have already been updated through an editorial update that occurred in March 2021.

## **Section 2. Investment Risks Interrogatories**

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation:

	<b>Bonds</b>	<u>1</u>	<u>2</u>		<b>Preferred Stocks</b>	<u>3</u>	<u>4</u>
3.01	NAIC – 1	\$ .....	.....%	3.07	<a href="#">NAIC</a> <del>P/RP</del> – 1	\$ .....	..... %
3.02	NAIC – 2	\$ .....	.....%	3.08	<a href="#">NAIC</a> <del>P/RP</del> – 2	\$ .....	..... %
3.03	NAIC – 3	\$ .....	.....%	3.09	<a href="#">NAIC</a> <del>P/RP</del> – 3	\$ .....	..... %
3.04	NAIC – 4	\$ .....	.....%	3.10	<a href="#">NAIC</a> <del>P/RP</del> – 4	\$ .....	..... %
3.05	NAIC – 5	\$ .....	.....%	3.11	<a href="#">NAIC</a> <del>P/RP</del> – 5	\$ .....	..... %
3.06	NAIC – 6	\$ .....	.....%	3.12	<a href="#">NAIC</a> <del>P/RP</del> – 6	\$ .....	..... %

### **Appendix C Actuarial Guidelines - Appendices**

Updates reference to the *former* Emerging Actuarial Issues (E) Working Group as well as adding reference the Valuation Analysis (E) Working Group's use of included interpretations.

Includes interpretations from the [former](#) Emerging Actuarial Issues (E) Working Group adopted by the Financial Condition (E) Committee. The Financial Analysis (E) Working Group [and the Valuation Analysis \(E\) Working Group](#) follows these interpretations ~~in~~[when](#) performing ~~its~~ reviews of the reserving methodologies under *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38).

### **Appendix C-2 Interpretations of the Emerging Actuarial Issues (E) Working Group**

Updates reference to the *former* Emerging Actuarial Issues (E) Working Group as well as adding reference the Valuation Analysis (E) Working Group's use of included interpretations.

## **Introduction**

The [former](#) Emerging Actuarial Issues (E) Working Group ([EAIWG](#)) and the current [Valuation Analysis \(E\) Working Group \(VAWG\)](#) responds to questions of application, interpretation and clarification with respect to *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38). Following an abbreviated public comment and review period of no less than seven days, the Working Group will adopt by consensus formal interpretations on issues presented before it. These interpretations will then be reported to the Financial Condition (E) Committee, which, after adopting, will direct the Financial Analysis (E) Working Group to follow the interpretations in performing its reviews of the reserving methodologies under AG 38. These interpretations will not become effective until formally adopted by the Financial Condition (E) Committee. In no event shall a consensus opinion of the [former EAIWG](#) ~~Working Group~~ or current [VAWG](#) supersede or otherwise conflict with AG 38.

### **SSAP No. 21R—Other Admitted Assets**

Updates improve the readability of paragraph 9 regarding receivables for securities.

9. Sales of securities are recorded as of the trade date. A receivable due from the broker is established in instances when a security has been sold, but the proceeds from the sale have not yet been received. Unless the

receivable for securities; meets the criteria set forth in paragraph 11, the receivable for securities is an admitted asset to the extent it conforms to the requirements of this statement. For other than a receivables arising from the sale of a security which was acquired on a "To Be Announced" ("TBA") basis, or from the sale of securities that are received as stock distributions that may be restricted (unregistered) or in physical form, and which has yet to be actually received, admissibility shall be in accordance with (see paragraph 12.); ~~meets the criteria set forth in paragraph 11, the receivable for securities is an admitted asset to the extent it conforms to the requirements of this statement.~~

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-A3\\_21-12EP August 2021.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-A3_21-12EP August 2021.docx)

**Statutory Accounting Principles (E) Working Group  
Maintenance Agenda Submission Form  
Form A**

**Issue:** Salvage - Legal Recoveries

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

This agenda item recommends nonsubstantive revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* to clarify that salvage and subrogation estimates and recoveries can include amounts related to both claims/ losses and loss adjusting expenses. The corresponding estimates should be reported as a reduction of losses and/or loss adjusting expense (LAE) reserves. Once the amounts for salvage and subrogation and coordination of benefits recoveries (COB) are received, they are reported as a reduction of paid losses and LAE depending on the nature of the costs being recovered.

SSAP No. 55 contains salvage and subrogation guidance. Key points of the guidance regarding salvage, subrogation and COB are as follows:

- Salvage, subrogation and coordination of benefits recoveries are estimated using the same techniques used for estimating unpaid claims/losses and unpaid loss adjusting expenses.
- Separate recoverables are not established. Estimated salvage, subrogation and coordination of benefit recoveries (net of associated expenses) are deducted from the liability for unpaid claims or losses (for reporting entities that choose to anticipate such recoveries).
- Salvage, subrogation and coordination of benefits recoveries received (net of associated expenses) are reported as a reduction to paid losses/claims.

This agenda item is in response to an industry request. The proposed clarification provides additional detail regarding loss adjusting expenses for salvage, subrogation and coordination of benefits that is believed to be consistent with current practice by a majority of reporting entities. For example, if legal fees are recovered in a subrogation lawsuit, it is believed that such amounts are currently being reported as reduction in paid adjusting expenses for legal fees. SSAP No. 55 does not explicitly discuss the recovery of loss adjusting expenses in the discussion of salvage, subrogation and COB. However, the property and casualty annual statement instructions, which are level two on the statutory hierarchy of authoritative literature, includes an explicit reference to reduce loss adjusting expenses for such amounts in the Schedule P instructions (See Existing Authoritative Literature below).

**Existing Authoritative Literature:**

SSAP No. 55 provides the following (bolding added for emphasis):

**General**

11. The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and

any other factors that would modify past experience. These liabilities shall not be discounted unless authorized for specific types of claims by specific SSAPs, including SSAP No. 54R and SSAP No. 65—*Property and Casualty Contracts*.

12. Various analytical techniques can be used to estimate the liability for IBNR claims, future development on reported losses/claims, and loss/claim adjustment expenses. These techniques generally consist of statistical analysis of historical experience and are commonly referred to as loss reserve projections. The estimation process is generally performed by line of business, grouping contracts with like characteristics and policy provisions. The decision to use a particular projection method and the results obtained from that method shall be evaluated by considering the inherent assumptions underlying the method and the appropriateness of those assumptions to the circumstances. No single projection method is inherently better than any other in all circumstances. The results of more than one method should be considered.

13. For each line of business and for all lines of business in the aggregate, management shall record its best estimate of its liabilities for unpaid claims, unpaid losses, and loss/claim adjustment expenses. Because the ultimate settlement of claims (including IBNR for death claims and accident and health claims) is subject to future events, no single claim or loss and loss/claim adjustment expense reserve can be considered accurate with certainty. Management's analysis of the reasonableness of claim or loss and loss/claim adjustment expense reserve estimates shall include an analysis of the amount of variability in the estimate. If, for a particular line of business, management develops its estimate considering a range of claim or loss and loss/claim adjustment expense reserve estimates bounded by a high and a low estimate, management's best estimate of the liability within that range shall be recorded. The high and low ends of the range shall not correspond to an absolute best-and-worst case scenario of ultimate settlements because such estimates may be the result of unlikely assumptions. Management's range shall be realistic and, therefore, shall not include the set of all possible outcomes but only those outcomes that are considered reasonable. Management shall also follow the concept of conservatism included in the Preamble when determining estimates for claims reserves. However, there is not a specific requirement to include a provision for adverse deviation in claims.

14. In the rare instances when, for a particular line of business, after considering the relative probability of the points within management's estimated range, it is determined that no point within management's estimate of the range is a better estimate than any other point, the midpoint within management's estimate of the range shall be accrued. It is anticipated that using the midpoint in a range will be applicable only when there is a continuous range of possible values, and no amount within that range is any more probable than any other. For purposes of this statement, it is assumed that management can quantify the high end of the range. If management determines that the high end of the range cannot be quantified, then a range does not exist, and management's best estimate shall be accrued. This guidance is not applicable when there are several point estimates which have been determined as equally possible values, but those point estimates do not constitute a range. If there are several point estimates with equal probabilities, management should determine its best estimate of the liability.

**15. If a reporting entity chooses to anticipate salvage and subrogation recoverables (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), the recoverables shall be estimated in a manner consistent with paragraphs 11-13 of this statement. Estimated salvage and subrogation recoveries (net of associated expenses) shall be deducted from the liability for unpaid claims or losses. If a reporting entity chooses to anticipate coordination of benefits (COB) recoverables of Individual and Group Accident and Health Contracts, the recoverables shall be estimated in a manner consistent with paragraphs 11-13 of this statement and shall be deducted from the liability for unpaid claims or losses. A separate receivable shall not be established for these recoverables. In addition, all of these recoverables are also subject to the impairment guidelines established in SSAP No. 5R—*Liabilities, Contingencies and Impairments of Assets* and an entity shall not reduce its reserves for any recoverables deemed to be impaired. Salvage and subrogation recoveries received (net of associated expenses) are reported as a reduction to paid losses/claims. Coordination of benefits**

**(COB) recoveries received of Individual and Group Accident and Health Contracts (net of associated expenses) are reported as a reduction to paid claims.**

16. Changes in estimates of the liabilities for unpaid claims or losses and loss/claim adjustment expenses resulting from the continuous review process, including the consideration of differences between estimated and actual payments, shall be considered a change in estimate and shall be recorded in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. SSAP No. 3 requires changes in estimates to be included in the statement of operations in the period the change becomes known. This guidance also applies to the period subsequent to the March 1 filing deadline for annual financial statements through the filing deadline of June 1 for audited annual financial statements.

### Disclosures

17. The financial statements shall include the following disclosures for each year full financial statements are presented. The disclosure requirement in paragraph 17.d. is also applicable to the interim financial statements if there is a material change from the amounts reported in the annual filing. Life and annuity contracts are not subject to this disclosure requirement.

- a. The balance in the liabilities for unpaid claims and unpaid losses and loss/claim adjustment expense reserves at the beginning and end of each year presented;
- b. Incurred claims, losses, and loss/claim adjustment expenses with separate disclosures of the provision for insured or covered events of the current year and increases or decreases in the provision for insured or covered events of prior years;
- c. Payments of claims, losses, and loss/claim adjustment expenses with separate disclosures of payments of losses and loss/claim adjustment expenses attributable to insured or covered events of the current year and insured or covered events of prior years;
- d. The reasons for the change in the provision for incurred claims, losses, and loss/claim adjustment expenses attributable to insured or covered events of prior years. The disclosure should indicate whether additional premiums or return premiums have been accrued as a result of the prior-year effects. (For Title reporting entities, “provision” refers to the known claims reserve included in Line 1 of the Liabilities page, and “prior years” refers to prior report years);
- e. Information about significant changes in methodologies and assumptions used in calculating the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements for the most recent reporting period presented;
- f. A summary of management’s policies and methodologies for estimating the liabilities for losses and loss/claim adjustment expenses, including discussion of claims for toxic waste cleanup, asbestos-related illnesses, or other environmental remediation exposures;
- g. Disclosure of the amount paid and reserved for losses and loss/claim adjustment expenses for asbestos and/or environmental claims, on a direct, assumed and net of reinsurance basis (the reserves required to be disclosed in this section shall exclude amounts relating to policies specifically written to cover asbestos and environmental exposures). Each company should report only its share of a group amount (after applying its respective pooling percentage) if the company is a member of an intercompany pooling agreement; and

- h. **Estimates of anticipated salvage and subrogation (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), deducted from the liability for unpaid claims or losses.**

The Property and Casualty Annual Statement Instructions for Schedule P, Part 1 discuss salvage and subrogation regarding loss reserve and paid claims and **then provide additional detail regarding losses and loss adjusting expenses in a later paragraph as excerpted below (bolding added for emphasis);**

Cumulative salvage and subrogation received and losses and expenses paid should be reported for each specific year. For "prior," report only salvage and subrogation received and losses and expenses paid in current year.

In Schedule P, Part 1, salvage and subrogation received should be reported net of reinsurance, if any. Loss payments are to be reported net of salvage and subrogation received in Schedule P.

Adjusting & Other Payments, Column 9, should only reflect ceded recoveries made in 1997 and subsequent. Adjusting & Other Payments, Column 8, should reflect net payments in 1996 and prior and direct and assumed payments for 1997 and subsequent.

Premiums earned and losses paid, unpaid, and incurred should reconcile with the Statement of Income page. The workpapers that show a reconciliation explaining reinsurance, discounting, and salvage and subrogation adjustments should be available for examination on request.

Report in Column 23 the estimated amount of anticipated salvage and subrogation that has been taken as credit (netted) in the reserves for **unpaid losses and loss adjustment expenses** reported in Column 24. (Note: Column 23 is a memo column only as the amounts contained therein have already been taken into consideration in Columns 13 through 20.)

## **The Life and Health Annual Statement Instructions for Note 36 (matches SSAP No. 55, paragraph 17h disclosure.)**

### **36. Loss/Claim Adjustment Expenses**

#### Instruction:

The financial statement shall include the following disclosures for each year full financial statements are presented. Life and annuity contracts are not subject to this disclosure requirement:

- The balance in the liabilities for unpaid loss/claim adjustment expense reserves at the beginning and end of each year presented.
- Incurred loss/claim adjustment expenses with separate disclosures of the provision for insured or covered events of the current year and increases or decreases in the provision for insured or covered events of prior years.
- Payments of loss/claim adjustment expenses with separate disclosure of payment of loss/claim adjustment expenses attributable to insured or covered events of the current year and insured or covered events of prior years.
- **Estimates of anticipated salvage and subrogation (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), deducted from the liability for unpaid claims or losses.**

Illustration:

The balance in the **liability for unpaid accident and health claim adjustment expenses** as of and \_\_\_\_\_ was \$ \_\_\_\_\_ and \$ \_\_\_\_\_, respectively.

The Company incurred \$ \_\_\_\_\_ and paid \$ \_\_\_\_\_ of **claim adjustment expenses** in the current year, of which

\$ \_\_\_\_\_ of the paid amount was attributable to insured or covered events of prior years. The Company did not increase or decrease the provision for insured events of prior years.

The Company took into account estimated anticipated salvage and subrogation of the liability for unpaid claims/losses and reduced such liability by \$ \_\_\_\_\_.

**The Health Annual Statement Instructions for note 31 matches SSAP No. 55, paragraph 17h disclosure.**

**31. Anticipated Salvage and Subrogation**

Instruction:

**Estimates of anticipated salvage and subrogation (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), deducted from the liability for unpaid claims or losses. Refer to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses for accounting guidance.**

Illustration:

The Company took into account estimated anticipated salvage and subrogation in its determination of the liability for unpaid claims/losses and reduced such liability by \$ \_\_\_\_\_.

**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):**Not applicable.

**Staff Review Completed by:**

Robin Marcotte, NAIC Staff - August 2021

**Staff Recommendation:**

NAIC staff recommends that the Working Group move this agenda item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 55, which clarify that subrogation recoveries should be reported as a reduction of losses and/or loss adjusting expense LAE reserves, depending on the nature of the costs being recovered. In addition, updates to the disclosure in paragraph 17h are recommended. In conjunction, with the agenda item, NAIC staff should be directed to coordinate develop conforming revisions to the annual statement instructions. While NAIC staff believes the proposed clarification is consistent with the current practice of most entities, the Working Group should notify the Casualty Actuarial and Statistical (C) Task Force, the Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force of the exposure.

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

**General**

11. The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience. These liabilities shall not be discounted unless authorized for specific types of claims by specific SSAPs, including SSAP No. 54R and SSAP No. 65—Property and Casualty Contracts.

12. Various analytical techniques can be used to estimate the liability for IBNR claims, future development on reported losses/claims, and loss/claim adjustment expenses. These techniques generally consist of statistical analysis of historical experience and are commonly referred to as loss reserve projections. The estimation process is generally performed by line of business, grouping contracts with like characteristics and policy provisions. The decision to use a particular projection method and the results obtained from that method shall be evaluated by considering the inherent assumptions underlying the method and the appropriateness of those assumptions to the circumstances. No single projection method is inherently better than any other in all circumstances. The results of more than one method should be considered.

13. For each line of business and for all lines of business in the aggregate, management shall record its best estimate of its liabilities for unpaid claims, unpaid losses, and loss/claim adjustment expenses. Because the ultimate settlement of claims ( including IBNR for death claims and accident and health claims ) is subject to future events, no single claim or loss and loss/claim adjustment expense reserve can be considered accurate with certainty. Management's analysis of the reasonableness of claim or loss and loss/claim adjustment expense reserve estimates shall include an analysis of the amount of variability in the estimate. If, for a particular line of business, management develops its estimate considering a range of claim or loss and loss/claim adjustment expense reserve estimates bounded by a high and a low estimate, management's best estimate of the liability within that range shall be recorded. The high and low ends of the range shall not correspond to an absolute best-and-worst case scenario of ultimate settlements because such estimates may be the result of unlikely assumptions. Management's range shall be realistic and therefore, shall not include the set of all possible outcomes but only those outcomes that are considered reasonable. Management shall also follow the concept of conservatism included in the Preamble when determining estimates for ~~claims~~claim and loss and loss/claim adjustment expense reserves. However, there is not a specific requirement to include a provision for adverse deviation in claims.

14. In the rare instances when, for a particular line of business, after considering the relative probability of the points within management's estimated range, it is determined that no point within management's estimate of the range is a better estimate than any other point, the midpoint within management's estimate of the range shall be accrued. It is anticipated that using the midpoint in a range will be applicable only when there is a continuous range of possible values, and no amount within that range is any more probable than any other. For purposes of this statement, it is assumed that management can quantify the high end of the range. If management determines that the high end of the range cannot be quantified, then a range does not exist, and management's best estimate shall be accrued. This guidance is not applicable when there are several point estimates which have been determined as equally possible values, but those point estimates do not constitute a range. If there are several point estimates with equal probabilities, management should determine its best estimate of the liability.

15. If a reporting entity chooses to anticipate salvage and subrogation recoverables (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), the recoverables shall be estimated in a manner consistent with paragraphs 10-12 of this statement. Estimated salvage and subrogation recoveries (net of associated recovery expenses) shall be deducted from the liability for unpaid claims, unpaid losses, and unpaid loss/claim adjustment expenses, depending on the whether the subrogation represents a recovery of claims/losses or loss/claims adjustment



~~expenses or losses~~. If a reporting entity chooses to anticipate coordination of benefits (COB ) recoverables of Individual and Group Accident and Health Contracts, the recoverables shall be estimated in a manner consistent with paragraphs 11-13 of this statement and shall be deducted from the liability for unpaid claims or losses. A separate receivable shall not be established for these recoverables. In addition, all of these recoverables are also subject to the impairment guidelines established in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5R) and an entity shall not reduce its reserves for any recoverables deemed to be impaired. Salvage and subrogation recoveries received (net of associated recovery expenses) are reported as a reduction to paid losses/claims and/or paid loss/claim adjustment expenses. Coordination of benefits (COB) recoveries received of Individual and Group Accident and Health Contracts (net of associated recovery expenses) are reported as a reduction to paid claims.

### Disclosures

17. The financial statements shall include the following disclosures for each year full financial statements are presented. The disclosure requirement in paragraph 17.d. is also applicable to the interim financial statements if there is a material change from the amounts reported in the annual filing. Life and annuity contracts are not subject to this disclosure requirement.

- a. The balance in the liabilities for unpaid claims and unpaid losses and loss/claim adjustment expense reserves at the beginning and end of each year presented;
- b. Incurred claims, losses, and loss/claim adjustment expenses with separate disclosures of the provision for insured or covered events of the current year and increases or decreases in the provision for insured or covered events of prior years;
- c. Payments of claims, losses, and loss/claim adjustment expenses with separate disclosures of payments of losses and loss/claim adjustment expenses attributable to insured or covered events of the current year and insured or covered events of prior years;
- d. The reasons for the change in the provision for incurred claims, losses, and loss/claim adjustment expenses attributable to insured or covered events of prior years. The disclosure should indicate whether additional premiums or return premiums have been accrued as a result of the prior-year effects. (For Title reporting entities, “provision” refers to the known claims reserve included in Line 1 of the Liabilities page, and “prior years” refers to prior report years);
- e. Information about significant changes in methodologies and assumptions used in calculating the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements for the most recent reporting period presented;
- f. A summary of management’s policies and methodologies for estimating the liabilities for losses and loss/claim adjustment expenses, including discussion of claims for toxic waste cleanup, asbestos-related illnesses, or other environmental remediation exposures;
- g. Disclosure of the amount paid and reserved for losses and loss/claim adjustment expenses for asbestos and/or environmental claims, on a direct, assumed and net of reinsurance basis (the reserves required to be disclosed in this section shall exclude amounts relating to policies specifically written to cover asbestos and environmental exposures). Each company should report only its share of a group amount (after applying its respective pooling percentage) if the company is a member of an intercompany pooling agreement; and

- h. Estimates of anticipated salvage and subrogation (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), deducted from the liability for unpaid claims, ~~or~~ losses or their associated adjusting expenses.

**Status:**

On August 26, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and took the following actions:

1. Exposed revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*, as illustrated above, to clarify that salvage and subrogation recoveries should be reported as a reduction of losses and/or loss adjusting expense (LAE reserves), depending on the nature of the costs being recovered. In addition, updates to the disclosure in paragraph 17.h. were exposed.
2. Directed NAIC staff to coordinate develop conforming revisions to the Annual Statement instructions.
3. Directed notification of the exposure to the following actuarial Task Forces:
  - a. Casualty Actuarial and Statistical (C) Task Force,
  - b. Life Actuarial (A) Task Force, and
  - c. Health Actuarial (B) Task Force

On November 10, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, exposed revisions *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*, as shown above. The revisions clarify that subrogation recoveries should be reported as a reduction of losses and/or loss adjusting expense (LAE) reserves, depending on the nature of the costs being recovered. Included in this adoption is an update to the related disclosures to isolate the reporting of estimated salvage and subrogation and their impact on unpaid claims, losses, or associated LAE.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-A4\\_21-13 Salvage legal fees.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-A4_21-13 Salvage legal fees.docx)

## Interpretation of the Statutory Accounting Principles Working Group

### INT 21-02: Extension of Ninety-Day Rule for the Impact of Hurricane Ida

#### INT 21-02T Dates Discussed

September 9, 2021; November 10, 2021

#### INT 21-02T References

*SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*

#### INT 21-02T Issue

1. Hurricane Ida and its aftermath has resulted in tremendous loss of life and property, the extent to which is currently not known. The Federal Emergency Management Agency (FEMA) lists Louisiana, New Jersey and New York as having emergency declarations because of the hurricane and related flooding. This interpretation is intended to cover storm impacted policies in areas in which a state of emergency was declared. State regulators and insurers are taking action to provide policyholders affected by this disaster with the support and understanding that is deserved.
2. Should a 60-day extension of the 90-day rule for uncollected premiums be temporarily granted to insurers for policies in U.S. jurisdictions where a state of emergency was declared which were affected by the hurricane, its aftermath and related flooding?

#### INT 21-02T Discussion

3. The Working Group reached a consensus for a one-time optional extension of the ninety-day rule for uncollected premium balances, bills receivable for premiums and amounts due from agents and policyholders required per SSAP No. 6, paragraph 9, as described within this paragraph.
  - a. For policies in effect as of the declaration of a state of emergency by either the states, U.S. territories or federal government, as described in paragraph 1, insurers with policyholders in areas impacted by Hurricane Ida, its aftermath and the related flooding may wait 150 days (90 days per existing guidance, plus a 60-day extension), not to extend beyond Jan. 23, 2022, before nonadmitting premiums receivable from those directly impacted policyholders as required per SSAP No. 6, paragraph 9.
  - b. Existing impairment analysis remains in effect for these affected policies.
4. The Working Group noted that a temporary sixty day (60) extension had previously been provided for other nationally significant disasters including *INT 20-11: Extension of Ninety-Day Rule for the Impact of 2020 Hurricanes, California Wildfires and Iowa Windstorms*, *INT 18-04: Extension of Ninety-Day Rule for the Impact of Hurricane Florence and Hurricane Michael*; *INT 17-01: Extension of Ninety-Day Rule for the Impact of Hurricane Harvey, Hurricane Irma and Hurricane Maria*; *INT 13-01: Extension of Ninety-Day Rule for the Impact of Hurricane/Superstorm Sandy*; and *INT 05-04: Extension of Ninety-day Rule for the Impact of Hurricane Katrina, Hurricane Rita and Hurricane Wilma*.
5. Due to the short-term nature of the applicability of this extension, which expires Jan. 23, 2022, this interpretation will be publicly posted on the Statutory Accounting Principles (E) Working Group web page. This

interpretation will be automatically nullified on Jan. 24, 2022, and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “As of March 2022” *Accounting Practices and Procedures Manual*.

#### **INT 21-02 Status**

6. No Further discussion is planned.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-A5\\_INT 21-02 - Hurricane Ida.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/Fall%202021/TF/App/SAP/Minutes/Att%20One-A5_INT%2021-02%20-%20Hurricane%20Ida.docx)

Draft: 10/26/21

Statutory Accounting Principles (E) Working Group  
E-Vote  
October 25, 2021

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded Oct. 25, 2021. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Co-Vice Chair (IA); Sheila Travis (AL); Kim Hudson (CA); Eric Moser (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Bob Kasinow (NY); Kimberly Rankin (PA); Jamie Walker (TX); Doug Stolte (VA); and Amy Malm (WI).

1. Exposed Agenda Items 2021-16, 2021-17, 2021-18 and 2021-19EP

The Working Group conducted an e-vote to consider exposure of agenda items 2021-16: SSAP No. 30R – FHLB Disclosures – Blanks Referral, 2021-17: SSAP No. 32R – Permitted Valuation Methods, 2021-18: VM 21 Scenario Consistency Update, and 2021-19EP: Editorial Revisions. A summary of each is as follows:

- 1) Agenda item 2021-16 does not propose statutory accounting revisions; however, it resulted in a referral to the Blanks (E) Working Group to include a supplemental data capture footnote for Federal Home Loan Bank (FHLB) borrowings that are classified as a deposit-type contract and reported in *Exhibit 7 – Deposit-Type Contracts*.
- 2) Agenda item 2021-17 proposes revisions to *Statement of Statutory Accounting Principles (SSAP) No. 30R—Unaffiliated Common Stock* to remove a reference that indicates that historical cost is an allowable valuation method for redeemable preferred stock. Such valuation methods were previously superseded in July 2020 when *SSAP No. 30—Unaffiliated Common Stock* was substantively revised.
- 3) Agenda item 2021-18 proposes to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* to ensure consistency with the *Valuation Manual*, specifically removing reference to the “standard scenario,” as that language is no longer utilized in VM-21, Requirements for Principle-Based Reserves for Variable Annuities.
- 4) Agenda item 2021-19EP proposes minor editorial corrections in accordance with the maintenance process. The agenda item proposes correcting paragraph references in *SSAP No. 16R—Electronic Data Processing Equipment and Software* and the removal of outdated references in *SSAP No. 43R—Loan-Backed and Structured Securities*.

Mr. Hudson made a motion, seconded by Mr. Kasinow, to expose agenda items 2021-16, 2021-17, 2021-18, and 2021-19EP for a public comment period ending Nov. 12. The motion passed unanimously.

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

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/MemberMeetings/Fall2021/TF/App/SAP/Minutes/AttOne-B\\_10252021-EvoteStatAcctWGminTPR.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/MemberMeetings/Fall2021/TF/App/SAP/Minutes/AttOne-B_10252021-EvoteStatAcctWGminTPR.docx)

Draft: 9/13/21

Statutory Accounting Principles (E) Working Group  
E-Vote  
Sept. 10, 2021

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded Sept. 10, 2021. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Co-Vice Chair (IA); Kim Hudson (CA); Kathy Belfi (CT); Eric Moser (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Bob Kasinow (NY); and David Smith (VA).

1. Exposed Agenda Item 2021-15 and INT 21-02T

The Working Group conducted an e-vote to consider exposure of agenda item 2021-15: SSAP No. 43R – Residual Tranches and Interpretation 21-02T – Hurricane Ida. A summary of each is as follows:

- 1) Agenda item 2021-15 proposes revisions to *SSAP No. 43R—Loan-Backed and Structured Securities*, clarifying that for all instruments within scope, nonrated residual tranches shall be reported on Schedule BA – Other Long-Term Investments and valued at the lower of cost or fair value. These provisions are proposed to be in effect for 2021 year-end reporting.
- 2) INT 21-02T proposes that for policies affected by Hurricane Ida, a 60-day extension to the “90-day rule” in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers* be granted for uncollected premiums balances, bills receivable for premiums, and amounts due from agents and policyholders. The temporary extension is proposed to be automatically nullified on Jan. 24, 2022.

Mr. Clark made a motion, seconded by Mr. Smith, to expose agenda item 2021-15 and INT 21-02T for a 21-day public comment period ending Oct 1. The motion passed unanimously.

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

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/MemberMeetings/Fall2021/TF/App/SAP/Minutes/AttOne-C\\_09102021EvoteStatAcctWGminTPR.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/MemberMeetings/Fall2021/TF/App/SAP/Minutes/AttOne-C_09102021EvoteStatAcctWGminTPR.docx) -

Draft: 9/7/21

Statutory Accounting Principles (E) Working Group  
Virtual Meeting  
August 26, 2021

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Aug. 26, 2021. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears and Kevin Clark, Co-Vice Chairs (IA); Sheila Travis (AL); Kim Hudson (CA); William Arfanis (CT); Rylynn Brown (DE); Cindy Andersen, Eric Moser and Kevin Fry (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Bob Kasinow (NY); Melissa Greiner and Kimberly Rankin (PA); Ludi Skinner and Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. Reviewed Comments on Exposed Items

The Working Group held a public hearing to review comments (Attachment One-D1) on previously exposed items.

a. Agenda Item 2021-04

Mr. Bruggeman directed the Working Group to agenda item 2021-04: Valuation of Foreign Insurance SCAs. Fatima Sediqzad (NAIC) stated that this agenda item originated from comments received during the development of agenda item 2018-26: SCA Loss Tracking – Accounting Guidance, which adopted revisions in *Statement of Statutory Accounting Principles (SSAP) No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* to state that reported equity method losses of an investment in a subsidiary, controlled, or affiliated entity (SCA) would not create a negative value in an SCA investment; thus, equity method losses would stop at zero. However, those adopted revisions also clarified that to the extent that there was a financial guarantee or commitment, it would require recognition under *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*. In November 2020, the Working Group adopted agenda item 2020-18: SSAP No. 97 Update, which removed a lingering, superseded reference regarding negative equity method loss valuations. Ms. Sediqzad stated that SSAP No. 97 requires specific limited statutory basis of accounting adjustments to paragraph 8.b.ii. (insurance-related SCA) and paragraph 8.b.iv. (foreign insurance SCA) entities. These adjustments are to prevent assets held by an SCA from receiving a more favorable accounting treatment than had they been held directly by the insurer. It was during the Working Group’s discussion of agenda item 2020-18 that industry requested consideration of whether foreign insurance SCAs should continue to be subject to the long-standing SSAP No. 97 statutory adjustments and the adjustments should result in a negative SCA valuation. Interested parties’ initial response was that foreign insurance operations are subject to foreign jurisdiction regulations and should be allowed to stand independently of a domestic insurer; thus, in the absence of a guarantee or commitment, equity valuation should not go negative. Industry inquired whether foreign insurance subsidiaries captured in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* are also intended to reflect the limited statutory adjustments, as required in SSAP No. 97, and whether the equity method of those investments shall reflect a negative value in the absence of a required U.S. generally accepted accounting principles (GAAP) audit.

Ms. Sediqzad stated that it is important to separate the SSAP No. 97, paragraph 13 (equity method) adjustments, which stop at zero from the SSAP No. 97, paragraph 9 (limited statutory basis of accounting) adjustments, which intentionally do not stop at zero. However, it is noted that reporting entities with investments captured under SSAP No. 48, which requires an audit for admittance, may not recognize that additional adjustments are needed if the investment is nonadmitted. Ms. Sediqzad also noted that if these SSAP No. 48 investments are not audited, reporting entities may have difficulty calculating the required adjustments to be made pursuant to SSAP No. 97, paragraph 9. From this discussion, in May 2021, the Working Group exposed nonsubstantive revisions to SSAP No. 48 and SSAP No. 97 to clarify the application of the guidance and limit when the statutory adjustments are required for foreign insurance subsidiaries.

Ms. Sediqzad noted that comments received from the exposure were supportive of the exposed edits. She recommended that the Working Group adopt the exposed nonsubstantive revisions to SSAP No. 48 to clarify that the adjustments in SSAP No. 97, paragraph 9 may result in a negative equity valuation; however foreign insurance SCA entities may stop at zero, provided that the entity does not provide services or hold assets on behalf of a U.S.-based reporting entity.

Angelica Tamayo-Sanchez (New York Life), representing interested parties, stated appreciation for the Working Group's consideration of this matter, as they believe foreign insurance SCAs are distinctly different from SSAP No. 97, paragraph 8.b.ii. entities, and this amendment will reflect the appropriate accounting of such items.

Mr. Hudson made a motion, seconded by Mr. Kasinow, to adopt the exposed nonsubstantive revisions in SSAP No. 48 and SSAP No. 97 (Attachment One-D2). The motion passed unanimously.

b. Agenda Item 2021-10

Mr. Bruggeman directed the Working Group to agenda item 2021-10: SSAP No. 32R – Clarification of Effective Call Price. Jim Pinegar (NAIC) stated that this agenda item proposes a clarification of the valuation ceiling for perpetual preferred and publicly traded preferred stock warrants in *SSAP No. 32R—Preferred Stock*. He stated that SSAP No. 32R requires that perpetual preferred stock be reported at fair value, with a valuation ceiling not to exceed any currently “effective call price.” However, as questions arose regarding the interpretation of this requirement, the exposed revisions clarify that the valuation ceiling will only apply in cases where the issuer has announced that the instrument will be called, or the call is currently exercisable, by the issuer. Mr. Pinegar stated that this interpretation will ensure that instruments in scope of SSAP No. 32R are not reported at a value exceeding an amount for which the item can be immediately called and will properly reflect the economics of these equity investments. He stated that the exposed footnote interpretation received informal comments indicating that interested parties support this proposal.

Ms. Malm made a motion, seconded by Mr. Bartlett, to adopt the exposed nonsubstantive revisions in SSAP No. 32R (Attachment One-D3). The motion passed unanimously.

2. Considered Maintenance Agenda – Pending Listing – Exposures

a. Agenda Item 2021-11

Mr. Bruggeman directed the Working Group to agenda item 2021-11: SSAP No. 43R – Credit Tenant Loans – Scope. Julie Gann (NAIC) stated that this agenda item was drafted because the Valuation of Securities (E) Task Force recently adopted revisions to the credit tenant loan (CTL) guidance in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual). She stated that with the newly adopted guidance, mortgage loans in scope of *SSAP No. 37—Mortgage Loans* will continue historical practice, with reporting entities having the ability to file the structures with the NAIC Securities Valuation Office (SVO) for a structural assessment to determine whether the mortgage loan can be reclassified from Schedule B: Mortgage Loans to Schedule D-1: Long-Term Bonds. Security structures that have underlying real estate risk, whether they are referred to as CTLs or by another name that qualify in scope of *SSAP No. 26R—Bonds* or *SSAP No. 43R—Loan-Backed and Structured Securities*, shall follow the accounting and reporting provisions of those applicable SSAPs. Ms. Gann stated that upon review of the Task Force adoptions, the temporary reporting provisions directed in *INT 20-10: Reporting Nonconforming CTLs* are no longer applicable. She stated that the Working Group could either nullify INT 20-10 or let the INT automatically expire on Oct. 1. Additionally, she stated that with the Task Force adoptions, NAIC staff are recommending disposal, without statutory revisions, of agenda item 2020-24: Accounting and Reporting of Credit Tenant Loans. She stated that NAIC staff are also recommending limited revisions to: 1) clarify that mortgage loans in scope of SSAP No. 37 that qualify under the SVO structural assessment as CTLs are in scope of SSAP No. 43R; and 2) remove outstanding references to examples of loan-backed and structured securities from SSAP No. 43R, paragraph 27.b. She stated that the proposed exposure period would end on Oct. 1, which is the same day INT 20-10 is scheduled to no longer be in effect. However, after comments are received, the Working Group could consider making an explicit statement regarding whether to allow the INT to automatically expire or that the Working Group has intentionally nullified the INT. Mr. Bruggeman stated that an affirmative action of the Working Group would likely be beneficial for historical record. He stated that the revisions only affect mortgage loans that are in the form of a CTL, not similarly named items that are in the legal form of a security.

Michael M. Monahan (American Council of Life Insurers—ACLI) stated that the ACLI supports exposure of the aforementioned items, as recommended by NAIC staff.

John Garrison (Lease-Backed Securities Working Group) stated support for the exposures, as recommended by NAIC staff, as the edits are in line with the recent adoptions of the Task Force.

Ms. Weaver made a motion, seconded by Mr. Clark, to expose for a public comment period ending Oct. 1: 1) nonsubstantive revisions detailed in agenda item 2021-11; 2) the disposal, without statutory revisions, of agenda item 2020-24; and 3) whether



INT 20-10 should be allowed to automatically nullify or if explicit nullification comments are warranted by the Working Group. The motion passed unanimously.

b. Agenda Item 2021-12EP

Mr. Bruggeman directed the Working Group to agenda item 2021-12EP: Editorial Updates. Robin Marcotte (NAIC) stated that this agenda item contains five editorial maintenance updates to the *Accounting Practices and Procedures Manual* (AP&P Manual). Four of the updates include minor formatting or revisions for consistency to the *Preamble*, *Appendix A-001*, *Appendix C*, and *Appendix C-2*. Ms. Marcotte stated that the remaining edit includes a minor update to improve the readability of the guidance for securities receivables in *SSAP No. 21R—Other Admitted Assets*.

Mr. Hudson made a motion, seconded by Ms. Weaver, to expose agenda item 2021-12EP for a public comment period ending Oct. 1. The motion passed unanimously.

c. Agenda Item 2021-13

Mr. Bruggeman directed the Working Group to agenda item 2021-13: Salvage – Legal Recoveries. Ms. Marcotte stated that this agenda item recommends nonsubstantive revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* to clarify that salvage and subrogation estimates and recoveries should be reported as a reduction to both claims/losses and loss adjusting expenses (LAEs), as appropriate. However, once the amounts for salvage, subrogation, and coordination of benefits (COB) recoveries are received, they are reported as a reduction of paid losses and LAEs depending on the nature of the costs being recovered. Ms. Marcotte stated that *SSAP No. 55* does not explicitly discuss the recovery of LAEs in the discussion of salvage, subrogation, and COB; however, the property/casualty (P/C) annual statement instructions, which are Level Two on the statutory hierarchy of authoritative literature, includes an explicit reference to reduce LAEs for such amounts in the instructions for *Schedule P – Analysis of Losses and Loss Expenses*. She stated that the proposed clarification, which was requested by industry, provides additional detail regarding LAEs for salvage, subrogation, and COB that is believed to be consistent with current practice by most reporting entities. She stated that even though NAIC staff believe the proposed clarification is consistent with the current practice of most entities, the Working Group should notify the Casualty Actuarial and Statistical (C) Task Force, the Life Actuarial (A) Task Force, and the Health Actuarial (B) Task Force of the exposure.

Mr. Hudson made a motion, seconded by Mr. Stolte, to expose agenda item 2021-13 and send notice of the exposure to the Casualty Actuarial and Statistical (C) Task Force, the Life Actuarial (A) Task Force, and the Health Actuarial (B) Task Force. The motion passed unanimously.

d. Agenda Item 2021-14

Mr. Bruggeman directed the Working Group to agenda item 2021-14: Policy Statement Terminology Change. He stated that this agenda item was drafted in response to a referral received from the Financial Condition (E) Committee regarding the Working Group's historical use of statutory accounting terminology of "substantive" and "nonsubstantive" to describe statutory accounting revisions being considered by the Working Group. The use of these terms could be misunderstood by users that are not familiar with the specific definitions. Mr. Bruggeman stated that the suggestions provided in the referral have been incorporated into the agenda item for exposure consideration. Ms. Gann stated that the agenda item only currently proposes modifications to the *NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process*, as that is the source document for those definitions. Once approved by the Working Group, it is anticipated that an editorial agenda item will be utilized to change the remaining references throughout the AP&P Manual. Mr. Bruggeman stated that after adoption, the new terms will be used on a go-forward basis and updating historical documents will not occur.

Mr. Hudson made a motion, seconded by Mr. Bartlett, to receive the referral from the Financial Condition (E) Committee and expose agenda item 2021-14. The motion passed unanimously.

3. Considered Maintenance Agenda – Active Listing

a. Agenda Item 2019-24

Mr. Bruggeman directed the Working Group to agenda item 2019-24: Levelized and Persistency Commission – Issue Paper. He stated that this agenda item is to document the historical background regarding discussions during the development of the

nonsubstantive revisions to *SSAP No. 71—Policy Acquisition Costs and Commissions*. He noted that the nonsubstantive revisions to SSAP No. 71 were adopted through the NAIC committee process, with final adoption occurring by the Executive (EX) Committee and Plenary at the Summer National Meeting.

Mr. Stolte made a motion, seconded by Mr. Hudson, to expose *Issue Paper No. 16x: Levelized Commission* for a public comment period. The motion passed unanimously.

Mr. Bruggeman stated that all the items exposed for comment have an Oct. 1 comment deadline.

#### 4. Discussed Other Matters

##### a. Received and Responded to a Valuation of Securities (E) Task Force Referral on WCFIs

Ms. Marcotte stated that in July 2021, the Valuation of Securities (E) Task Force adopted changes to the P&P Manual incorporating revisions consistent with the revisions approved by the Working Group in May 2020 to *SSAP No. 105R—Working Capital Finance Investments*. Additionally, the Task Force directed a 30-day exposure and a referral to the Working Group regarding additional proposed P&P Manual edits concerning unrated and nonguaranteed subsidiary obligors in Working Capital Finance Investment (WCFI) programs. Ms. Marcotte stated that although the public comment period for this item has ended, Task Force support staff have confirmed that the Working Group will have additional time to respond to the referral.

Ms. Marcotte stated that the referral received provided notification of an exposed policy change that would direct the SVO to rely upon the NAIC designation of an unrated subsidiary obligor's parent entity for WCFI programs, without notching for the subsidiary. She stated that a referral was provided to the Working Group, as a qualifying NAIC designation of the obligor is a required element for admittance of WCFI receivables under SSAP No. 105R. She stated that the Task Force's exposure is a variation of the industry's prior recommendations, which were previously rejected by the Working Group. The Task Force exposure proposes to require the rating of the WCFI program parent to be relied on for unrated, unguaranteed obligors. If the Task Force agrees and deems it essential that the SVO assign NAIC designations to WCFI transactions with unrated, non-guaranteed obligors, then this policy change will affect how NAIC designations are assigned to WCFI transactions. The policy would direct SVO staff to apply/imply the credit rating of the parent to unrated, unguaranteed subsidiaries for WCFI programs even if they do not have financial information on the subsidiary. This direction is noted in the exposed SVO memo as contrary to current SVO credit substitution methodologies and is noted as not a generally accepted credit rating technique, as implied parent support is not legally enforceable.

Ms. Marcotte stated that the draft referral response notes that although the Task Force oversees the process to determine NAIC designations, the proposed methodology is a significant departure for how SVO ratings are otherwise assigned. However, the provisions within SSAP No. 105R were established in accordance with historical practices, which allow the SVO to apply its credit substitution methodology as it does for other asset classes. If the Task Force chooses to move away from the historical application of financial analysis (and use of the credit substitution methodology in determining NAIC designations for WCFI programs), the Working Group may deem it necessary to incorporate additional guardrail provisions to SSAP No. 105R, as the NAIC designation of the obligor may no longer provide the intended safeguards for WCFI programs. The draft referral response also noted that the proposed P&P Manual revisions include two elements that would require further coordination to avoid inconsistencies with SSAP No. 105R.

Mr. Bruggeman stated that while the Task Force has the responsibility for determining credit quality and NAIC designations, SSAP No. 105R has historically required reliance on a parent for such determination. However, the proposed policy would require the SVO to imply an NAIC designation to an unrated entity based on the parent entity's credit quality, all without guarantees or other legally binding provisions that provide assurance that the parent will be legally or contractually obligated to financially cover the obligations of the unrated entity. Although, for a given program, and not related to the parent/sub relationship, the SVO may notch or otherwise not give a rating to that program. Mr. Bruggeman stated that if the SVO takes such action, the Working Group may consider additional changes to SSAP No. 105R.

Mr. Fry stated that despite the Task Force's proposal to no longer rely on the parent for a subsidiary's credit determination, the WCFI program has several mitigants and is well controlled with several safeguards. He stated that this is a safe asset class with a proven track record.

Mr. Hudson made a motion, seconded by Mr. Arfanis, to receive the referral from the Task Force and send the referral response. The motion passed unanimously.

5. Reviewed and Discussed the Proposed Principles-Based Bond Definition

The Working Group held a public hearing to review comments (Attachment One-D4) on previously exposed items.

a. Agenda Item 2019-21

Mr. Bruggeman directed the Working Group to agenda item 2019-21: SSAP No. 43R. Ms. Gann stated that in October 2020, a small group of state insurance regulators and industry met regularly to draft a principles-based bond definition. The intent of this project is to clarify what should be reported on Schedule D-1, regardless of whether the instrument is in scope of SSAP No. 26R or SSAP No. 43R. In May 2021, the Working Group exposed the principles-based bond definition, along with a glossary and appendices with examples for application purposes. As a result of the exposure, three comment letters were received. Ms. Gann stated that NAIC staff are requesting Working Group input as to whether the proposed definition provides the general framework that should be used to proceed with the development of an issue paper and statutory accounting revisions. She stated that with direction from the Working Group to move forward with these principle concepts, all elements are still subject to continuous discussion, and revisions are expected to occur throughout the process.

Ms. Gann stated that depending on the Working Group's direction, the next steps would include the development of: 1) an issue paper and proposed revisions to incorporate the bond concepts; 2) guidance that specifically details accounting and reporting for items that may no longer be eligible for Schedule D-1 reporting as a bond; and 3) reporting revisions to incorporate more granularity on Schedule D-1. She stated that due to the significance of the changes expected, the earliest application of the new standard would likely be Jan. 1, 2024. She stated that in addition to directing development of an issue paper, it is recommended that the Working Group repurpose the "43R small group" as a "43R study group" and request that additional state insurance regulators volunteer to participate as regular members. She stated that until revised guidance is adopted and effective, reporting entities can continue reporting as they have been for items currently in scope of SSAP No. 26R or SSAP No. 43R. However, an interim agenda item is anticipated to clarify that non-rated residual tranches or interests should be reported on Schedule BA: Other Long-Term Invested Assets.

Mr. Clark stated appreciation for the collaboration with industry on the SSAP No. 43R project. Creating a bond definition that is based on substance rather than legal form, is critical for state insurance regulators' understanding of the types of risks present in an insurer's investment portfolio, especially those reported on Schedule D-1. He stated that the development of a principles-based approach will accommodate a vast array of investment structures and is the best way to accomplish this goal.

In response to an inquiry from Ms. Weaver, Mr. Bruggeman stated that the intent of the project is to properly classify bonds and investments so that they are reported on an appropriate schedule and receive an adequate risk-based capital (RBC) charge. Ms. Mears stated that this was her understanding, but she also wanted to reiterate that the role of the project is reporting, not to determine credit quality nor modify the NAIC designation process. Accordingly, lower quality instruments that meet the definition of a bond will still qualify for Schedule D-1 reporting.

Michael Reis (Northwestern Mutual), representing interested parties, stated appreciation to the Iowa regulators and NAIC staff in their collaborative efforts with this project. He stated that the principle concepts will be helpful to ensure appropriate reporting while preventing potential investment reporting abuses. He stated that interested parties are generating additional examples for discussion to ensure there are not any unintended consequences, and they look forward to the continued collaboration. Mr. Bruggeman stated that the intent of the project is to remain principles-based; however, certain circumstances may require additional specificity to ensure clarity of the standard.

Ms. Gann stated in response to an inquiry from Mr. Bruggeman that the intent is to not allow pure grandfathering of existing structures. However, transition accommodations will likely be considered. Mr. Clark stated that grandfathering would negate the benefits of the project, especially as prior investments would not be subject to the new guidance. State insurance regulators would not know which investments follow the new guidance, especially as prior investments might not be liquidated for several years. Mr. Clark identified that transition guidance is anticipated as part of the additional discussions.

Ms. Gann summarized the comments received from Pinnacol Assurance, noting that they pertain to what is known as "stapled investments," as certain debt security holders are contractually obligated to hold a corresponding equity component. Mr. Clark stated that the prevalence of these investments is likely more common than originally anticipated; however, review of the

differentiation of these investments versus those that are in substance no different than had the insurer held 100% of an equity interest (that has been recharacterized as a debt), will be reviewed as a part of this project.

Aaron Sarfatti (Equitable) inquired if the risk characteristics of an investment can be separated from the bond definition. He inquired due to certain investments having a broad range of outcomes, whether an investment should qualify as a bond and whether the current RBC infrastructure provides an adequate charge. He stated that he believes that any subordinate debt structure should not qualify for bond treatment, unless there is a special exception provided by the Working Group or the SVO. The concepts proposed would not adequately capture credit quality of possible investor outcomes. Mr. Bruggeman stated that the role of statutory accounting is to address the reporting of certain instruments, while investment quality is determined through NAIC designations through the Valuation of Securities (E) Task Force; risk charges of investments, often determined based on the reported NAIC designations, are determined through the Capital Adequacy (E) Task Force. He stated that as the project proceeds, the Working Group will consider appropriate referrals, as deemed necessary. Mr. Sarfatti stated that he will submit a comment letter to the appropriate working groups or task forces to further articulate his points.

Caleb Brainerd (Athene) inquired of Mr. Sarfatti if his comments mean that any subordinated tranche should not qualify as a bond or that only the most subordinated tranche would not qualify. Mr. Sarfatti stated that any subordinated tranche has a binary outcome, and while differing tranches have varying degrees of outcome uncertainty, the current RBC treatments for such items are likely not adequate, and he recommends additional review by state insurance regulators. Mr. Brainerd stated that he does not agree that all tranches have a binary outcome and will await Equitable's comment letter.

In response to a submitted inquiry, Mr. Bruggeman stated that in terms of the permitted practice process, the bond proposal will not have an impact on the process per se. However, if an accounting treatment other than what is adopted by the Working Group is sought, it would require approval from an insurer's domestic regulator as a permitted practice.

Mr. Clark made a motion, seconded by Ms. Malm, to affirm the direction of the exposed principle-based bond concepts, repurpose the "43R small group" as a "43R study group," and direct staff to proceed with an interim project to require non-rated residual tranches or interests be reported on Schedule BA. The motion passed unanimously.

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

[https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/fall 2021/tf/app/sap/minutes/att one-d\\_sapwg minutes 08.26.21 tpr.docx](https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member%20meetings/fall%202021/tf/app/sap/minutes/att%20one-d_sapwg%20minutes%2008.26.21%20tpr.docx)

**Statutory Accounting Principles (E) Working Group  
Comment Letters Received**

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July 15, 2021

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: Comments on Ref# 2021-04: *SSAP No. 97 – Valuation of Foreign Insurance SCAs*

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to provide comments on Ref# 2021-04 (the “exposure draft”), which was re-exposed by the Statutory Accounting Principles Working Group (the “Working Group”) on May 20, 2021.

The exposure draft proposes to make the following changes to the SSAP No. 97 and SSAP No. 48:

SSAP No. 97 Paragraph 9

Note that the outcome of these adjustments can result in a negative equity valuation of the investment for all paragraph 8.b.ii. entities. For a paragraph 8.b.iv. entity, the application of these adjustments will stop at zero, and will not result in negative equity valuation unless the 8.b.iv entity provides services to the reporting entity or its affiliates or holds assets on behalf of the reporting entity. If such services, including reinsurance transactions, are occurring, the adjustments required in this paragraph can result in a negative equity valuation. (See additional equity method application guidance in paragraph 13.e. regarding guarantees and financial support.)

SSAP No. 48 Paragraph 6

Investments in these ventures, except for joint ventures, partnerships and limited liability companies with a minor ownership interest, shall be reported using an equity method as defined in *SSAP No. 97—Investments in Subsidiary, Controlled and*

*Affiliated Entities*, paragraphs 8.b.i. through 8.b.iv. (The equity method calculation may result with a negative valuation of the investment, therefore the SSAP No. 97 equity method calculation shall occur regardless of whether the investment is supported by an audit and the reporting entity will nonadmit the investment.) A reporting entity whose shares of losses in a SSAP No. 48 entity exceeds its investment in the SSAP No. 48 entity shall disclose the information required by SSAP No. 97, paragraph 35.a.

Interested parties agree with these changes. As stated in our previous comment letters on this topic, there are significant differences between 8.b.ii and 8.b.iv subsidiaries that warrant different accounting treatment. Interested parties believe that the proposed edits to SSAP No. 97 provide for the appropriate accounting for 8.b.iv subsidiaries while at the same time providing effective guardrails to prevent any potential abuses of the rules.

\* \* \*

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

cc: NAIC staff  
Interested parties

[https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/fall 2021/tf/app/sap/minutes/att one-d1 comment ltrs/att one-d1a\\_dkb2352.docx](https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member%20meetings/fall%202021/tf/app/sap/minutes/att%20one-d1%20comment%20ltrs/att%20one-d1a_dkb2352.docx)



New York Life Insurance Company  
51 Madison Avenue, New York, NY 10010

July 15, 2021

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: New York Life's Comments on Item 2021-04 *SSAP No. 97 – Valuation of Foreign Insurance SCAs*

Dear Mr. Bruggeman:

New York Life ("NYL") appreciates the opportunity to provide comments on Item 2021-04 (the "Exposure"), which was re-exposed by the Statutory Accounting Principles (E) Working Group (the "SAPWG") on May 20, 2021.

The Exposure proposes to make the following changes to the SSAP No. 97 and SSAP No. 48

SSAP No. 97 Paragraph 9

Note that the outcome of these adjustments can result in a negative equity valuation of the investment for all paragraph 8.b.ii. entities. For a paragraph 8.b.iv. entity, the application of these adjustments will stop at zero, and will not result in negative equity valuation unless the 8.b.iv entity provides services to the reporting entity or its affiliates or holds assets on behalf of the reporting entity. If such services, including reinsurance transactions, are occurring, the adjustments required in this paragraph can result in a negative equity valuation. (See additional equity method application guidance in paragraph 13.e. regarding guarantees and financial support.)

SSAP No. 48 Paragraph 6

Investments in these ventures, except for joint ventures, partnerships and limited liability companies with a minor ownership interest, shall be reported using an equity method as defined in SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities*, paragraphs 8.b.i. through 8.b.iv. (The equity method calculation may result with a negative valuation of the investment, therefore the SSAP No. 97 equity method calculation shall occur regardless of whether the investment is supported by an audit and the reporting entity will nonadmit the investment.) A reporting entity whose shares of losses in a SSAP No. 48 entity exceeds its investment in the SSAP No. 48 entity shall disclose the information required by SSAP No. 97, paragraph 35.a.



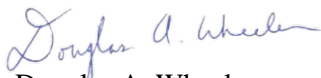
NYL agrees with the proposed changes to both SSAPs. We believe that the language being proposed reflects the appropriate accounting for an 8.b.iv entity and at the same time prevents potential interpretations that would allow an 8.b.iv entity's equity to be floored at zero if the 8.b.iv is only in existence to benefit the reporting entity.

Thank you for considering our comments.

Sincerely,



Robert M. Gardner  
Senior Vice President and Controller



Douglas A. Wheeler  
Senior Vice President, Office of Governmental Affairs

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**Statutory Accounting Principles (E) Working Group  
Maintenance Agenda Submission Form  
Form A**

**Issue: SSAP No. 97 – Valuation of Foreign Insurance SCAs**

**Check (applicable entity):**

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

In March 2020, agenda item 2018-26 – SCA Loss Tracking – Accounting Guidance adopted guidance in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* to state that reported equity method losses of an investment in a subsidiary controlled or affiliated entity (SCA) would not create a negative value in a SCA investment, thus equity method losses would stop at zero. However, the agenda item also clarified that to the extent there was a financial guarantee or commitment, it would require appropriate recognition under *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets*.

In November 2020, the Working Group adopted agenda item 2020-18 - SSAP No. 97 Update and removed a lingering, superseded reference regarding negative equity method loss valuations.

However guidance in SSAP No. 97 also requires specific adjustments to 8.b.ii (insurance related SCA) and 8.b.iv (foreign insurance SCA) entities. These long-standing adjustments require the non-admission of certain assets to achieve a limited statutory basis of accounting. The adjustments have typically been viewed as necessary in order to prevent assets being held by SCA receiving more favorable treatment than had the assets been held directly by the insurer. (e.g., requiring the nonadmittance of certain assets per *SSAP No. 20—Nonadmitted Assets*). Per SSAP No. 97, an equity method of accounting for 8.b.ii and 8.b.iv entities would be a beginning point which would then be adjusted by the provisions of SSAP No. 97, paragraph 9 (see “authoritative literature section”). It is important to note the outcome of these adjustments can result in a negative equity valuation of the investment. Again, this is so assets held by an SCA aren’t reported at a higher value than had they been held directly by the insurer.

During the discussion of agenda item 2020-18, industry comments requested consideration of whether 8.b.iv entities should be subject to the provisions of SSAP No. 97, specifically that paragraph 9 adjustments may result in a negative equity valuation. While stating many positions, industry’s primary response that foreign insurance operations are subject to foreign jurisdiction and should be allowed to stand independently of a domestic insurer – thus in the absence of a guarantee or commitment, equity valuation should not go negative and thus stop at zero. Comments were received from industry noted that the circumstances that would cause a foreign insurance reporting entity to record negative equity is not prevalent, however indicated the potential to arise in the future.

At the direction of the NAIC staff have drafted this agenda item to determine if further edits to SSAP No. 97 are required, specifically if the required statutory adjustments to 8.b.iv entities should no longer be able to result in a negative equity valuation.

One note, NAIC staff reviewed all SCA filings for the last 3 years, noting that less than 7% of all SCA filings were 8.b.iv entities. It was further noted that there was not a single instance of an 8.b.iv in a negative equity situation.

**Existing Authoritative Literature:**

Paragraph 9 of SSAP No. 97 details the modifications that are necessary to adjust audited U.S. Generally Accepted Accounting Principle (GAAP) financial statements to a limited statutory basis of accounting. These long-standing adjustments ensure that assets held by an SCA are not accounted for in a more favorable manner than had the assets been held directly by the insurer.

**SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities**

**9. The limited statutory basis of accounting for investments in noninsurance SCA entities, subject to paragraph 8.b.ii. and foreign insurance SCA entities, subject to paragraph 8.b.iv., shall be adjusted for the following:**

- a. Nonadmit assets pursuant to the following statutory accounting principles as promulgated by the NAIC in the *Accounting Practices and Procedures Manual*;
  - i. *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*
  - ii. *SSAP No. 16R—Electronic Data Processing Equipment and Software*
  - iii. *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
  - iv. *SSAP No. 20—Nonadmitted Assets*
  - v. *SSAP No. 21R—Other Admitted Assets* (e.g., collateral loans secured by assets that do not qualify as investments are nonadmitted under SAP)
  - vi. *SSAP No. 29—Prepaid Expenses*
  - vii. *SSAP No. 105R—Working Capital Finance Investments*
- b. Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the *Accounting Practices and Procedures Manual* (e.g., deferred policy acquisition costs, preoperating, development and research costs, etc.);
- c. Adjust depreciation for certain assets in accordance with the following statutory accounting principles:
  - i. *SSAP No. 16R—Electronic Data Processing Equipment and Software*
  - ii. *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
  - iii. *SSAP No. 68—Business Combinations and Goodwill*
- d. Nonadmit the amount of goodwill of the SCA in excess of 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- e. Nonadmit amount of the net deferred tax assets (DTAs) of the SCA in excess of 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- f. Nonadmit any surplus notes held by the SCA issued by the reporting entity.

- g. Adjust the U.S. GAAP annuity account value reserves of a foreign insurance SCA, with respect to the business it wrote directly, using the commissioners' annuity reserve valuation method (CARVM) as defined in paragraphs 14 and 15 of Appendix A-820 (including the reserving provisions in the various Actuarial Guidelines which support CARVM). The valuation interest rate and mortality tables to be used in applying CARVM should be that prescribed by the foreign insurance SCA's country of domicile. If the Foreign SCA's country of domicile does not prescribe the necessary tables and/or rates, no reserve adjustment shall be made.

**Note that the outcome of these adjustments, can result in a negative equity valuation of the investment.**

**SSAP No. 97, Exhibit C:**

**7. Q – Is it possible for an SCA investment valued using an equity method to be reported as a negative value?**

- 7.1 **A –** Yes, the equity method noninsurance SCA could have a negative equity. For example, SSAP No. 97, paragraph 8.b.ii., relating to noninsurance SCA entities, may require some assets to be reported as a negative value (nonadmitted) in paragraph 9. In this example, a paragraph 8.b.ii. SCA subsidiary that is only holding furniture, which is nonadmitted, would be reflected with negative equity to the extent the value of the nonadmitted asset(s) exceed(s) reported equity. It should be noted that although SSAP No. 97, paragraph 13.e., discusses some situations in which the equity method should be discontinued, this does not apply to SCA entities, which meet the requirements of paragraph 8.b.ii. In addition, SSAP No. 97, paragraph 13.e., lists some situations where the equity method for 8.b.ii and 8.b.iv entities would result in a valuation that is less than zero.

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 items 2018-26 – SCA Loss Tracking – Accounting Guidance and 2020-18 – SSAP No. 97 Update were previously adopted. Agenda item 2018-26 resulted in revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* stating that equity losses of an SCA would not go negative (thus stopping at zero), however the guaranteed liabilities would be reported to the extent there is a financial guarantee or commitment. Agenda item 2020-18 resulted in revisions with clarifying edits to Exhibit C, question 7, in SSAP No. 97, as well as removed a superseded statement that guarantees or commitments from the insurance reporting entity to the SCA could result in a negative equity valuation of the SCA.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**

None

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

**Staff Recommendation:**

**Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose the intent to move this item to the disposal listing without statutory edits. Per staff's review of SCA Sub 2 filings filed with an 8b(iv) valuation method, there were no noted instances of negative value SCAs, therefore we do not recommend revisions to the existing guidance.** This exposure will allow industry to determine if they are aware of any prevalent examples of a negative equity valuation in a foreign insurance SCA (8.b.iv) and provide detailed information to NAIC staff for assessment.

NAIC staff highlights that if such an event (negative equity due to nonadmitted assets) was to actually occur at some point, and the company was to question whether the negative equity in the SCA should be reported, that this should be addressed directly with the state of domicile. With this approach, the domiciliary state would be able to assess the limited statutory edits that were performed, the extent to which assets are held in the SCA that would be nonadmitted if held directly by the insurer, and how the SCA obtained those assets.

**Staff Review Completed by: Fatima Sediqzad - NAIC Staff  
February 2021**

**Status:**

On March 15, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed the intent to move this agenda item to the disposal listing without statutory edits. Industry is requested submit comments on any prevalent examples of a negative equity valuation in a foreign insurance subsidiary, controlled or affiliated (SCA) investment with detailed information for assessment.

On May 20, 2021, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, as shown below, to indicate that the equity method valuation referenced in SSAP No. 97 can result in a negative equity valuation and to limit the statutory adjustments in SSAP No. 97, paragraph 9. The exposure includes proposed guidance based on comments received, which propose that foreign insurance SCAs shall stop at zero (and thus not be subject to negative equity valuations) when applying paragraph 9 adjustments in cases where the foreign insurance subsidiary is not engaged in providing services to, or holdings assets on behalf of, U.S. insurers.

**Exposed Revisions:**

**SSAP No. 97, paragraph 9**

9. The limited statutory basis of accounting for investments in noninsurance SCA entities, subject to paragraph 8.b.ii. and foreign insurance SCA entities, subject to paragraph 8.b.iv., shall be adjusted for the following:

- a. Nonadmit assets pursuant to the following statutory accounting principles as promulgated by the NAIC in the *Accounting Practices and Procedures Manual*;
  - i. *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*
  - ii. *SSAP No. 16R—Electronic Data Processing Equipment and Software*
  - iii. *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
  - iv. *SSAP No. 20—Nonadmitted Assets*
  - v. *SSAP No. 21R—Other Admitted Assets* (e.g., collateral loans secured by assets that do not qualify as investments are nonadmitted under SAP)
  - vi. *SSAP No. 29—Prepaid Expenses*

- vii. *SSAP No. 105R—Working Capital Finance Investments*
- b. Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the *Accounting Practices and Procedures Manual* (e.g., deferred policy acquisition costs, preoperating, development and research costs, etc.);
- c. Adjust depreciation for certain assets in accordance with the following statutory accounting principles:
  - i. *SSAP No. 16R—Electronic Data Processing Equipment and Software*
  - ii. *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
  - iii. *SSAP No. 68—Business Combinations and Goodwill*
- d. Nonadmit the amount of goodwill of the SCA in excess of 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- e. Nonadmit amount of the net deferred tax assets (DTAs) of the SCA in excess of 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- f. Nonadmit any surplus notes held by the SCA issued by the reporting entity.
- g. Adjust the U.S. GAAP annuity account value reserves of a foreign insurance SCA, with respect to the business it wrote directly, using the commissioners' annuity reserve valuation method (CARVM) as defined in paragraphs 14 and 15 of Appendix A-820 (including the reserving provisions in the various Actuarial Guidelines which support CARVM). The valuation interest rate and mortality tables to be used in applying CARVM should be that prescribed by the foreign insurance SCA's country of domicile. If the Foreign SCA's country of domicile does not prescribe the necessary tables and/or rates, no reserve adjustment shall be made.

Note that the outcome of these adjustments can result in a negative equity valuation of the investment for all paragraph 8.b.ii. entities. For a paragraph 8.b.iv. entity, the application of these adjustments will stop at zero, and will not result in negative equity valuation unless the 8.b.iv entity provides services to the reporting entity or its affiliates or holds assets on behalf of the reporting entity. If such services, including reinsurance transactions, are occurring, the adjustments required in this paragraph can result in a negative equity valuation. (See additional equity method application guidance in paragraph 13.e. regarding guarantees and financial support.)

#### **SSAP No. 48, paragraph 6**

6. Investments in these ventures, except for joint ventures, partnerships and limited liability companies with a minor ownership interest, shall be reported using an equity method as defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraphs 8.b.i. through 8.b.iv. (The equity method calculation may result with a negative valuation of the investment, therefore the SSAP No. 97 equity method calculation shall occur regardless of whether the investment is supported by an audit and the reporting entity will nonadmit the investment.) A reporting entity whose shares of losses in a SSAP No. 48 entity exceeds its investment in the SSAP No. 48 entity shall disclose the information required by SSAP No. 97, paragraph 35.a.

On August 26, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, exposed revisions to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, as illustrated above. The revisions in SSAP No. 48 direct that the equity method valuation referenced in SSAP No. 97 can result in a negative equity valuation regardless of if the investment is supported by an audit. The revisions in SSAP No. 97 direct that when applying the “limited statutory accounting adjustments” (SSAP No. 97, paragraph 9) to foreign insurance SCAs (SSAP No. 97, paragraph 8.b.iv. entities), the resultant equity value shall stop at zero (and thus not be subject to negative equity valuations) in cases where the foreign insurance subsidiary is not providing services to, or holding assets on behalf of, U.S. insurers.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-D2\\_21-04 - SSAP No. 97 - Valuation Foreign SCAs.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/Fall%202021/TF/App/SAP/Minutes/Att%20One-D2_21-04%20-%20SSAP%20No.%2097%20-%20Valuation%20Foreign%20SCAs.docx)

**Statutory Accounting Principles (E) Working Group  
Maintenance Agenda Submission Form  
Form A**

**Issue:** SSAP No. 32R – Clarification of ‘Effective Call Price’

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** For a brief historical context, in July 2020, the Working Group adopted *Issue Paper No. 164—Preferred Stock* and substantively revised *SSAP No. 32R—Preferred Stock*. The substantively revised SSAP No. 32R was effective January 1, 2021, however in October 2020, agenda item 2020-31, permitted early application of the newly revised standard.

NAIC staff have received implementation questions regarding the application of a valuation ceiling for certain callable instruments in scope of SSAP No. 32R. The valuation ceiling requires that perpetual preferred, mandatory convertible preferred stock as well as publicly traded preferred stock warrants be reported at fair value, with a valuation ceiling that is **not to exceed any currently effective call price**. Questions on both the application and interpretation of this limitation have been brought to NAIC staff, accordingly this agenda item has been drafted to propose a clarification of this valuation ceiling.

Callable preferred stock is a type of preferred stock in which the issuer has the right to call or redeem at a pre-set price on or after a pre-defined calendar date. The call redemption terms such as price, premium and other applicable characteristics are specified in the instrument’s prospectus. It is important to note that callable preferred stock generally have a five-year lock out period in which the issuer cannot call the preferred stock. Additionally, prior to redemption (call), the issuer must send notice to the shareholders, detailing the date and conditions of the redemption.

NAIC staff recommend that an appropriate interpretation for the application of the valuation ceiling is that the limitation should only apply in situations where the call is *currently exercisable* by the issuer, or the issuer has provided notice of its intent to call the preferred stock. If the valuation ceiling were to apply earlier (in advance of the call date), in situations where preferred stock is purchased in advance of its available call date, a reporting entity would be required to artificially limit the preferred stock’s value, despite being able to liquidate it on the open market for fair value. This limitation could apply for years as calls are typically not available to the issuer for a period of at least 5 years post issuance.

For example, if perpetual preferred stock were purchased at \$140 (its current fair value), but the preferred stock had a call available to the issuer at \$120 in 5 years, a reporting entity would be required to report a day 1 unrealized loss for \$20. To require the recognition of an unrealized loss in these situations does not appear to appropriately reflect the economics of the equity investment, especially when the instrument can be sold at its current fair value without incurring a loss. It is important to note that market conditions will likely influence the market value of the preferred stock as a call date nears – gradually decreasing any excess of fair value over the call price by the time the security is callable by the issuer. NAIC staff support maintaining a (clarified) valuation limitation to protect against unlikely scenarios where a callable security’s fair value increases but will be called at a lower price.



**Existing Authoritative Literature:** The ‘currently effective call price’ valuation ceiling is referenced in numerous sections within *SSAP No. 32R—Preferred Stock* and is applicable to both perpetual and mandatory convertible preferred stock as well as publicly traded preferred stock warrants. For emphasis, relevant guidance has been bolded below.

### Balance Sheet Amount

11. Preferred stock shall be valued based on (a) the underlying characteristics (redeemable, perpetual or mandatory convertible), (b) the quality rating expressed as an NAIC designation, and (c) whether an asset valuation reserve (AVR) is maintained by the reporting entity:
- a. For reporting entities that do not maintain an AVR:
    - i. Highest-quality or high-quality redeemable preferred stocks (NAIC designations 1 and 2), which have characteristics of debt securities, shall be valued at cost or amortized cost. All other redeemable preferred stocks (NAIC designations 3 to 6) shall be reported at the lower of cost, amortized cost, or fair value.
    - ii. Perpetual preferred stock and publicly traded preferred stock warrants shall be reported at fair value, **not to exceed any currently effective call price**.
    - iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, **not to exceed any currently effective call price**, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
    - iv. For preferred stocks reported at fair value, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus)
  - b. For reporting entities that maintain an AVR:
    - i. Highest-quality, high-quality or medium quality redeemable preferred stocks (NAIC designations 1 to 3) shall be valued at amortized cost. All other redeemable preferred stocks (NAIC designations 4 to 6) shall be reported at the lower of amortized cost or fair value.
    - ii. Perpetual preferred stock and publicly preferred stock warrants shall be valued at fair value, **not to exceed any currently effective call price**.
    - iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, **not to exceed any currently effective call price**, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
    - iv. For preferred stocks reported at fair value, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

### Impairment of Redeemable Preferred Stock

12. An other-than-temporary impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the preferred stock in effect at the date of acquisition. An assessment of other-than-temporary impairment shall occur whenever mandatory redemption rights or sinking fund requirements do not occur. A decline in fair value which is other-than-temporary includes situations where the reporting entity has made a decision to sell the preferred stock prior to its maturity at an amount below its carrying value (i.e., amortized cost). If it is

determined that a decline in the fair value of a redeemable preferred stock is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the redeemable preferred stock's carrying value and its fair value, **not to exceed any currently effective call price**, at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7.

13. In periods subsequent to the recognition of other-than-temporary impairment loss for a redeemable preferred stock, the reporting entity shall account for the other-than-temporarily impaired preferred stock as if the preferred stock had been purchased on the measurement date of the other-than-temporary impairment. The fair value of the redeemable preferred stock on the other-than-temporary impairment measurement date shall become the new cost basis of the redeemable preferred stock and the new cost basis shall not be adjusted for subsequent recoveries in fair value. The discount or reduced premium recorded for the preferred stock, based on the new cost basis, shall be amortized over the remaining life of the preferred stock in the prospective manner based on the amount and timing of future estimated cash flows. The preferred stock shall continue to be subject to impairment analysis for each subsequent reporting period. Future declines in fair value which are determined to be other-than-temporary shall be recorded as realized losses.

**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):** Previous activity was summarized above, in the 'Description of Issue' section.

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

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

**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. 32R—Preferred Stock* clarifying that for the 'effective call price' valuation ceiling to occur that 1) the call be currently exercisable by the issuer, or 2) the issuer of the security has announced that the instruments will be redeemed/called.

**Proposed edits to SSAP No. 32R:**

**Balance Sheet Amount**

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

- a. For reporting entities that do not maintain an AVR:
  - i. Highest-quality or high-quality redeemable preferred stocks (NAIC designations 1 and 2), which have characteristics of debt securities, shall be valued at cost or amortized cost. All other redeemable preferred stocks (NAIC designations 3 to 6) shall be reported at the lower of cost, amortized cost, or fair value.
  - ii. Perpetual preferred stock and publicly traded preferred stock warrants shall be reported at fair value, not to exceed any currently effective call price.

- iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, not to exceed any currently effective call price, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
- iv. For preferred stocks reported at fair value, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus)
- b. For reporting entities that maintain an AVR:
  - i. Highest-quality, high-quality or medium quality redeemable preferred stocks (NAIC designations 1 to 3) shall be valued at amortized cost. All other redeemable preferred stocks (NAIC designations 4 to 6) shall be reported at the lower of amortized cost or fair value.
  - ii. Perpetual preferred stock and publicly preferred stock warrants shall be valued at fair value, not to exceed any currently effective call price.
  - iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, not to exceed any currently effective call price, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
  - iv. For preferred stocks reported at fair value, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

#### **Impairment of Redeemable Preferred Stock**

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

**New Footnote (FN) – In all situations noted in this statement in which the fair value is limited to the currently effective call price, this limitation only applies when the call is 1) currently exercisable by the issuer, or 2) the issuer has announced that the instruments will be redeemed/called.**

**Staff Review Completed by:** Jim Pinegar, NAIC Staff – June 2021

#### **Status:**

On July 20, 2021, in response to an e-vote to expose, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 32R—Preferred Stock* to clarify that the “effective call price” valuation limitation, for all instruments within scope

of the standard, shall only apply if the call is currently exercisable by the issuer or if the issuer has announced that the instrument will be redeemed/called.

On August 26, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *SSAP No. 32R—Preferred Stock*, as illustrated above, to clarify that the “effective call price” valuation limitation, for all instruments within scope of the standard, shall only apply if the call is currently exercisable by the issuer or if the issuer has announced that the instrument will be redeemed/called.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-D3\\_21-10 - SSAP No. 32R - Effective Call Price.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-D3_21-10 - SSAP No. 32R - Effective Call Price.docx)

**Statutory Accounting Principles (E) Working Group  
Comment Letters Received**

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July 15, 2021

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: Ref #2019-21 – SSAP No. 43R, Proposed Bond Definition

Dear Mr. Bruggeman:

Interested parties would like to thank the Statutory Accounting Principles Working Group (SAPWG) for the opportunity to comment on the proposed bond definition in Reference #2019-21 – SSAP No. 43R, Proposed Bond Definition (the “Proposed Bond Definition” or “Exposure”). Interested parties would also like to thank SAPWG for the opportunity to regularly provide input to regulators and NAIC staff as the Proposed Bond Definition was being more fully developed; especially the collaborative environment where open and honest dialogue was encouraged so that the nuances of a very complicated project could be properly addressed.

Overall, interested parties are supportive of the proposed principles-based Proposed Bond Definition. We believe it is flexible enough to accommodate the continued evolution of the bond market, while having safeguards that help prevent potential regulatory abuses. The Proposed Bond Definition does come with a cost to industry though, which is primarily driven by the requirement to analyze and document that certain bonds meet specific thresholds (“meaningful” and “sufficient”). It may be necessary to have practical accommodations upon adoption (i.e., transition requirements for existing investments in an insurer’s investment portfolio) as it is our understanding the Proposed Bond Definition will require such analysis and documentation “as if” it was done when the bonds were issued. It may be difficult to do this “as if” analysis and documentation with bonds that were issued many years previously and/or where documentation is not available to perform such an analysis.

Interested parties would also like to address several areas of the Proposed Bond Definition where greater clarity may be needed and/or where we believe the requirements are too stringent. Interested parties will limit our comments to those we believe are substantive and will address several editorial comments directly with the SAPWG Working Group.

One item that may have escaped our full attention during the development of the Proposed Bond Definition relates to interest only and principal only strips. While we believe such investments generally qualify under the Proposed Bond Definition, it is unclear if such investments are an Issuer Credit Obligation (US Treasury Strips?) or Asset Backed Security (Mortgage Backed Security Strips?) as well as how the sufficiency criteria would apply to the latter when there are, or are not, agency guarantees. We intend to work with the SAPWG Working Group to get proper clarity on such investments.

The interested parties believe the examples in the Proposed Bond Definition are integral to applying it as well as providing a principles-based way of preventing perceived regulatory abuses such as ensuring legal form bonds, with in-substance equity-like characteristics, are not reported as bonds. Interested parties would like to provide three comments on these examples.

- 1) Example 1 of Appendix I prevents a legal form debt investment, that is required to be purchased with a pro rata share of an equity interest, from being a bond where there is a restriction on selling, assigning or transferring the debt investment without also selling, assigning, or transferring the pro rata equity interest to the same party. While the debt investment would have legal priority of payment over the equity interest, both interests are contractually required to be held in the same proportion by the reporting entity and cannot be independently sold, assigned or transferred, which only gives the reporting entity priority of payment over itself. The structure does not alter the risk profile in a way that results in different performance relative to if an investor were to just directly invest in the underlying assets. Therefore, the debt investment does not represent a creditor relationship in substance. Interested parties agree with this assessment but would like to emphasize that such investments will need to find a reporting home, other than Schedule D, Bonds, where the proper accounting of both the debt and equity interest is addressed. For such a situation where the underlying fund predominantly holds debt securities, it may also be appropriate that such investment, in total, be applied a bond-like risk-based capital charge.

Similarly, accounting and reporting will need to be addressed for any and all debt investments that do not meet the Proposed Bond Definition, but that are recognized as bonds in the financial markets. For example, 1) debt instruments issued by funds, that are treated as bonds in the capital markets, but would be excluded from the Proposed Bond Definition under Example III of Appendix I or 2) non-agency mortgage-backed securities that are treated as bonds in the capital markets but would be excluded from the Proposed Bond Definition under Example I of Appendix II, and therefore would not be reported as bonds on Schedule D. We understand the SAPWG Working Group intends to address the accounting and reporting, and potentially an appropriate risk-based capital charge for these investments, and any other bonds that do not meet the Proposed Bond Definition. Interested parties would like to emphasize the importance of addressing them appropriately and reaffirm that we stand ready to offer our assistance.

- 2) As mentioned previously, interested parties believe the examples in the Proposed Bond Definition are integral to applying the new proposed definition and generally find them helpful. However, the sufficiency examples in Appendix II do not include an example for a more traditional ABS, such as a collateralized loan obligation (CLO). Interested parties believe such an example would be beneficial to the Proposed Bond Definition and are currently working on developing one. We plan to share this with the SAPWG Working Group and are hopeful it can be added to the Proposed Bond Definition.
- 3) Interested parties believe Examples I and II of Appendix I do a good job of delineating a principle-based solution for preventing in-substance equity-like investments from being reported as bonds on Schedule D. Example III, however, we believe needs to be amended to ensure that it does not affect well-structured debt investments from being reported on Schedule D as bonds.

First, real world collateralized fund obligation debt instruments (CFO Debt Instruments), that are treated as bonds in the marketplace, are much more complicated and nuanced than the simplified example and interested parties have been challenged in applying the example to investments they own. For example, many CFO Debt Instruments are self-amortizing (in full or in part) and it is unclear if the following provision applies to the anticipated bullet maturity or total principal balance.

*“Additionally, a debt instrument for which repayment relies significantly upon the ability to refinance or sell the underlying equity interests at maturity subjects to a point-in-time equity valuation risk that is characteristic of the substance of the equity holder relationship rather than a creditor relationship. Therefore, such reliance would preclude the rebuttable presumption from being overcome”*

Notwithstanding this lack of perceived clarity, many may interpret the phrase “relies significantly”, that limits refinancing or underlying assets sales for repayment, to mean only approximately 10 – 20% of such repayment is allowed from these sources. We do not believe this is appropriate nor that it makes the CFO Debt Instruments equity-like. We note that this is apparently independent of overcollateralization and would treat CFO Debt Instruments the same whether they are 10x overcollateralized or 1x overcollateralized. It also seems to contradict the factors on the previous page where it says a reporting entity should consider the overcollateralization. We believe overcollateralization (and the other factors listed) should be evaluated collectively when making an equity-like determination rather than the seemingly hard and fast rule noted above.

This hard and fast rule also makes it equity-like if repayment substantially relies on refinancing. Interested parties agree that refinancing risk is an important consideration, but it typically is a determining factor in assessing credit quality as opposed to a factor in determining whether it is a debt security or an equity-like one. Interested parties believe that the credit quality of an investment will decline as the refinancing risk increases, but also believe that it should be eligible for Schedule D treatment, assuming the refinancing risk is commensurate with that of other debt securities.

The vast majority of debt in the private and public capital markets is structured as bullet maturities and it is universally accepted that the source of repayment typically is going to be from a refinancing event occurring at or near the time of the debt maturity. For CFO Debt Instruments, interested parties believe that it can also be acceptable to expect to be refinanced at maturity, but only if the expectation that the level of overcollateralization will remain at prudent levels such that a reasonable investor would be willing to refinance the maturity with replacement debt. The assessment of the debt’s ability to be refinanced needs to take into account the expectation for the initial, ongoing and “at maturity” overcollateralization, as well as the other structural enhancements that are likely to benefit the investor refinancing the debt. There is further little substantive difference between refinancing risk for debt issued by a CFO when compared to debt issued by an SEC ‘40 Act Fund.

Lastly, interested parties have also noted investments where the debt is issued from a feeder fund, which in turn invests in another fund, that invests directly in debt securities. While we do not believe Example III is intended to prohibit such investments, interested parties believe further clarity on these arrangements is warranted as they could be construed to be debt backed by equity interests.

Interested parties are hopeful we can re-assess Example III of Appendix I with the SAPWG working group to provide both greater clarity as well as additional flexibility on whether debt backed by equity should be eligible for reporting on Schedule D as bonds.

\*\*\*\*\*



Thank you for considering interested parties' comments. Interested parties are committed to working with NAIC staff and SAPWG on this very complicated and important topic. If you have any questions in the interim, please do not hesitate to contact us or Mike Reis at [michaelreis@northwesternmutual.com](mailto:michaelreis@northwesternmutual.com) or 414-241-8293.

Sincerely,

D. Keith Bell

Rose Albrizio

cc: interested parties

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**The Lease-Backed Securities Working Group**

July 15, 2021

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: Ref #2019-21 – SSAP No. 43R, Proposed Bond Definition

Dear Mr. Bruggeman:

Our group, the *Lease-Backed Securities Working Group*, would like to thank the Statutory Accounting Principles Working Group (SAPWG) for the opportunity to comment on the proposed bond definition in Reference #2019-21 – SSAP No. 43R, Proposed Bond Definition (the “Proposed Bond Definition” or “Exposure”).

As you know, our group has been working closely for over a year now with members of SAPWG as well as the Valuation of Securities Task Force (VOSTF) and the Securities Valuation Office (SVO) to clarify the appropriate accounting and reporting treatment for the class of investments we are most concerned with: Lease-Backed Securities, Credit-Tenant Loans and Ground Lease Financings. We believe that together we have arrived at the correct outcome for these securities, and we are deeply appreciative of the consideration we received from all the regulators, as well as the time and effort that was put in by all parties to achieve that goal.

With regard to the broader effort to update the definition and classification of bonds and asset-backed securities which is the subject of the current exposure, we agree with many of the comments which have been submitted by other interested parties. However, we would like to offer the following additional comments:

- 1.) As a specific matter, paragraph 2 of the exposure lists various securities which would fall into the category of “issuer credit obligations”. Among others, these include:

g. ETCs, EETCs, and CTLs *for which repayment is fully supported by a lease to an operating entity* (emphasis added).

With regard to CTLs, although it is not explicitly stated here, we assume that the phrase “fully-supported” would extend to CTLs which meet the newly-revised definition in the P&P Manual: that is “Credit Tenant Loans” with a residual balance no greater than 5%.

- 2.) From a broader perspective, the current language in SSAP 43R, “Loan-Backed and Structured Securities”, draws a clear distinction between “structured securities” and “loan-backed securities” -- which are “not included in structured securities” -- and “for which the payment of interest and/or principal is directly proportional to the payments received by the issuer from the underlying assets”.

These loan-and-lease-backed “pass-through securities” have long been accepted insurance company investments, as codified in SSAP 43R for many years. We believe that it is important not to lose this distinction between “pass-through” and “structured” securities, and we worry that the division of the

### **The Lease-Backed Securities Working Group**

universe of bonds neatly into “issuer credit obligations” and “asset-backed securities” (a phrase which does not seem to appear at all in the current version of 43R) may be confusing to the market.

This is especially true, as the phrase “Asset-Backed Security” is commonly used to refer to pools of assets which have been carved-up, or “tranching” into multiple securities, and for which the cash flows received by investors are not “directly proportional” to the payments flowing from the underlying assets.

This confusion is made worse by the requirement in Paragraph 3.b of the Exposure that in order to qualify as an “asset-backed security” an investment must include “*sufficient credit enhancement through guarantees (or other similar forms of recourse) subordination and/or overcollateralization*” [Paragraph 3.b].

The examples in Appendix II of the exposure seek to clarify the “sufficiency criteria” for credit enhancement for various types of bonds. The principal used is that credit enhancement needs to be “*sufficient to absorb losses similar to other debt instruments of similar quality*”.

We believe that when this language is exposed, it will be both very confusing to market participants and difficult to implement in practice. This is because it conflates two concepts: credit quality and accounting classification. Who would bear the responsibility for determining: a) which debt instruments were of “similar quality”, and b) the amount of credit enhancement “sufficient” to achieve a certain credit quality? These are highly subjective judgments for which the answers could vary from deal to deal based on the specific characteristics of each individual transaction. How would disagreements be resolved?

This language also runs the risk of making it appear that all “asset-backed securities” must be “structured securities” with an equity tranche, or “first-loss” piece – or otherwise, they would not qualify as “bonds”.

While this may not have been the intent of the regulators, the current language seems to point in that direction. We would hope that as the process moves forward these important issues could be further clarified. In order for markets to function in an orderly manner, there need to be clear “guardrails” for both regulators and investors, and a clear distinction between accounting rules and standards, and credit quality.

We look forward to continuing the dialog we have established over the past year with the regulator community in clarifying the treatment of “CTLs”, Lease-backed Securities, and Ground-Lease Securities, and we are grateful for the opportunity to comment on the current exposure.

Thank you for considering our comments,

*JMGarrison*

John Garrison  
On behalf of *The Lease-Backed Securities Working Group*

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July 12, 2021

Mr. Dale Bruggeman  
Chair, Statutory Accounting Principles (E) Working Group  
c/o Ms. Julie Gann at [jgann@naic.org](mailto:jgann@naic.org)  
Mr. Jim Pinegar at [jpinegar@naic.org](mailto:jpinegar@naic.org)  
Ms. Robin Marcotte at [rmarcotte@naic.org](mailto:rmarcotte@naic.org)  
Ms. Fatima Sediqzad at [fsediqzad@naic.org](mailto:fsediqzad@naic.org)  
Mr. Jake Stultz at [jstultz@naic.org](mailto:jstultz@naic.org)

Re: Proposed Definition of “Bond,” issued May 20, 2021 (last updated May 26, 2021)

Ladies and Gentlemen:

I serve as Vice President and Chief Investment Officer of Pinnacol Assurance (“Pinnacol”), Colorado’s state workers’ compensation insurance fund. This advice represents Pinnacol’s Comment to the Proposed Bond Definition (the “Definition”) issued by the Statutory Accounting Principles (E) Working Group on May 20, 2021.

As you know, many insurers have statutory limits on the amount of “other invested assets” they can own— Colorado limits an insurer’s “other invested assets” to 5% of the portfolio. Any “other invested assets” in excess of the 5% limitation cannot be considered “admitted assets” comprising part of the insurer’s surplus but instead, will reduce that surplus dollar for dollar.

The reason all this is important is that Pinnacol has invested around \$85 million in five separate rated note structures which are comprised of two parts. The first part represents loans made by the manager of the investment to various borrowers (which would seem to be characterizable as a Bond and not an equity interest). The second part represents an equity interest in the vehicle issuing the notes. The ultimate underlying investments in these strategies are comprised of private debt, which generates the cash flows to pay Pinnacol’s returns on both the notes and the equity components.

According to the examples set forth in the proposed definition of “Bond,” it appears that the existence of the equity interest (which cannot be traded separately from the notes) in the rated notes programs in which Pinnacol has invested would disqualify these investments as “Bonds.” This would mean that Pinnacol would suffer a reduction in its surplus by at least \$85 million.



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The proposed definition of “Bond” suggests that whether an investment qualifies as a “Bond” is an all or nothing proposition-- if a structured rated note investment contains certain equity like characteristics, it will not be characterizable as a Bond, even though a significant portion of the investment represents a creditor relationship which otherwise would qualify as a Bond. Pinnacol believes a more reasonable approach (and one which better reflects economic reality) would be to allow insurers to characterize that portion of their investment which represents a creditor relationship as a Bond (and therefore, categorizable as an admitted asset constituting part of the insurer’s surplus) with only the equity portion of the investment not being characterized as a Bond (and if in excess of 5% of the portfolio, not qualifying as an admitted asset). In other words, we suggest that the definition of a Bond recognize that portions of an investment may be characterized as a Bond while other portions may not. This bifurcation will better reflect the economic reality of each investment and protect insurer surplus from the dramatic dilution that otherwise will be experienced by adopting an “all or nothing” definition of Bond.

In conclusion, we contend that the Working Group’s “all or nothing” approach to characterization of an investment as a “Bond” poses great harm to the industry and is not reflective of the fact that a significant portion of rated note structured investments are creditor relationships properly characterized as Bonds. Instead, we urge the Working Group to adopt a definition of Bond which at the very least, permits those portions of an investment which truly reflect a creditor relationship to be treated as a Bond.

Sincerely,

PINNACOL ASSURANCE

A handwritten signature in dark ink, appearing to read "David L. Bomberger", written over a light blue horizontal line.

David L. Bomberger  
Vice President, Chief Investment Officer

cc: Mr. Joel Hornbostel  
Jon Atkins, Esq.  
Mr. Francis Rooney  
Marc Lieberman, Esq.

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**Statutory Accounting Principles (E) Working Group  
December 11, 2021 – Fall National Meeting  
Comment Letters Received**

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October 1, 2021

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: Items Exposed for Comment by the Statutory Accounting Principles Working Group on August 26, 2021 with Comments due October 1, 2021

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the exposure drafts released for comment by the NAIC Statutory Accounting Principles (E) Working Group (the Working Group). We offer the following comments:

**Ref #2021-11 SSAP No. 43R**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed the following:

1. Revisions to *SSAP No. 43R—Loan-Backed and Structured Securities*, as illustrated in the proposal, to explicitly identify the SVO-Identified CTLs that are in scope of SSAP No. 43R. These revisions also propose to delete the examples of “other loan-backed and structured securities” in paragraph 27.b. Comments are requested if this deletion is perceived to remove investments from the scope of SSAP No. 43R.
2. Request for comment on the Working Group’s intent to nullify INT 20-10. (This INT nullifies automatically on Oct. 1, 2021, but it is anticipated that the explicit nullification will identify the revisions adopted by the VOSTF for historical reference.)
3. Disposal of agenda item 2020-24: Accounting and Reporting of Credit Tenant Loans without statutory revisions. This was the agenda item in response to the initial VOSTF referral and is no longer applicable with the adopted Task Force edits to clarify that CTLs are mortgage loans in scope of SSAP No. 37.

Interested parties have no comment on this item.

**Ref #2021-12 NAIC Accounting Practices and Procedures Manual Editorial and Maintenance Update**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed editorial revisions to the Preamble, *Appendix A-001: Investments of Reporting Entities*, *Appendix C Actuarial Guidelines – Appendices*, *Appendix C-2 Interpretations of the Emerging Actuarial Issues (E) Working Group*, and *SSAP No. 21R —Other Admitted Assets*, as illustrated in the proposal.

Interested parties have no comment on this item.

**Ref #2021-13 SSAP No. 55: Salvage - Legal Recoveries**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and took the following actions:

1. Exposed revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*, as illustrated in the proposal, to clarify that salvage and subrogation recoveries should be reported as a reduction of losses and/or loss adjusting expense (LAE reserves), depending on the nature of the costs being recovered. In addition, updates to the disclosure in paragraph 17.h. were exposed.
2. Directed NAIC staff to coordinate develop conforming revisions to the Annual Statement instructions.
3. Directed notification of the exposure to the following actuarial Task Forces:
  - a. Casualty Actuarial and Statistical (C) Task Force,
  - b. Life Actuarial (A) Task Force, and
  - c. Health Actuarial (B) Task Force

Interested parties support this proposal.

**Ref #2021-14 Policy Statement Terminology Change – Substantive & Nonsubstantive**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, as illustrated in the proposal and suggested by the Financial Condition (E) Committee in their Aug. 14, 2021, referral, to alter the terminology used when discussing types of statutory accounting revisions.

After some discussion and consideration of the proposal and its impact on the implementation of new statutory accounting standards, interested parties concluded that the distinction between substantive (proposed change to “development of new SSAPs or New SAP Concepts in an



Existing SSAPs”) and non-substantive (proposed to change to “Development of SAP Clarifications”) is at times confusing and that there would be more transparency in the development process if the distinction were eliminated. Instead, we recommend that all new standards be handled similarly but that the effective date for each new standard be determined by evaluating the complexity of implementation (e.g., the extent that systems changes are required) and the availability of data to insurers to implement the new standard. This determination would be made as the new standard is being completed and with feedback from industry as to the time needed to adopt the new requirements.

#### **INT 21-02T: Extension of Ninety-Day Rule for the Impact of Hurricane Ida**

The Working Group reached a tentative consensus for a one-time optional extension of the ninety-day rule for uncollected premium balances, bills receivable for premiums and amounts due from agents and policyholders required per SSAP No. 6, paragraph 9. For policies in effect as of the declaration of a state of emergency by either the states, U.S. territories or federal government, as described in paragraph 1, insurers with policyholders in areas impacted by Hurricane Ida, its aftermath and the related flooding may wait 150 days (90 days per existing guidance, plus a 60-day extension), not to extend beyond Jan. 23, 2022, before nonadmitting premiums receivable from those directly impacted policyholders as required per SSAP No. 6, paragraph 9. b. Existing impairment analysis remains in effect for these affected policies.

The Working Group noted that a temporary sixty day (60) extension had previously been provided for other nationally significant disasters including INT 20-11: Extension of Ninety-Day Rule for the Impact of 2020 Hurricanes, California Wildfires and Iowa Windstorms, INT 18-04: Extension of Ninety-Day Rule for the Impact of Hurricane Florence and Hurricane Michael; INT 17-01: Extension of Ninety-Day Rule for the Impact of Hurricane Harvey, Hurricane Irma and Hurricane Maria; INT 13-01: Extension of Ninety-Day Rule for the Impact of Hurricane/Superstorm Sandy; and INT 05-04: Extension of Ninety-day Rule for the Impact of Hurricane Katrina, Hurricane Rita and Hurricane Wilma.

This interpretation will be automatically nullified on Jan. 24, 2022 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “As of March 2022” *NAIC Accounting Practices and Procedures Manual*.

Interested parties support this proposal.

#### **Ref #2019-24 SSAP No. 71: Levelized Commissions**

The Working Group exposed Issue Paper No. 16x: Levelized Commissions to document the historical discussion and final action adopted through the Executive Committee/Plenary.

Interested parties have no further comment on this item.

\* \* \*

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

cc: NAIC staff  
Interested parties

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November 15, 2021

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: Items Exposed for Comment by the Statutory Accounting Principles Working Group by  
eVote on October 25, 2021 with Comments due November 12

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the exposure drafts released for comment by the NAIC Statutory Accounting Principles (E) Working Group (the Working Group). We offer the following comments:

**Ref #2021-16: SSAP No. 30R – FHLB Disclosure – Blanks Referral**

On October 25, 2021, in response to an e-vote to expose, the Working Group exposed this agenda item for public comment. While this agenda item does not propose statutory accounting revisions, it resulted in a referral to the Blanks (E) Working Group to include a supplemental data capture footnote for FHLB borrowings that are classified as a deposit-type contract and reported on *Exhibit 7 – Deposit-Type Contracts*.

Interested parties support the proposed change in this item.

**Ref #2021-17: SSAP No. 32R – Permitted Valuation Methods**

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 32R—Preferred Stock* to remove lingering references which indicate that cost is an allowable valuation method for redeemable preferred stock.

Interested parties have no comment on this item.

### Ref #2021-18: VM-21 Scenario Consistency Update

The Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 108R—Derivatives Hedging Variable Annuity Guarantees* to ensure consistency with revisions to VM-21, removing references to the standard scenario. The Working Group also provided notice of the exposure to the Life Actuarial (A) Task Force. Interested parties support this proposal.

Interested parties agree with this proposal but recommend the following edits for the Working Group's consideration:

14. Deferred assets and deferred liabilities recognized under paragraph 13.b. shall be amortized using a straight-line method into realized gains or realized losses over a finite amortization period. The amortization timeframe shall equal the Macaulay duration of the guarantee benefit cash flows based on the VM-21 Standard Projection with prescribed assumption run scenario that produces ~~VM-21 adjusted run scenario that produces~~ the scenario reserve closest to conditional tail expectation (CTE) 70 (adjusted), but shall not exceed a period of 10 years. The ~~CTE 70 (adjusted)~~ VM-21 Standard Projection with prescribed assumption run ~~and the~~ scenario reserve closest to the CTE 70 (adjusted) ~~are~~ is determined using the method (company specific market path (CSMP) or conditional tail expectations (CTE) with prescribed assumptions (CTEPA)) applied by the reporting entity<sup>FN</sup> to calculate the prescribed projections amount.

### Ref #2021-19: Editorial and Maintenance Update

The Working Group exposed the editorial revisions, as shown in the proposal, for public comment.

Interested parties have no comment on this item.

\* \* \*

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

cc: NAIC staff  
Interested parties

## Statutory Issue Paper No. 165

### Levelized Commission

#### STATUS

Finalized December 11, 2021

Original SSAP: SSAP No. 71; Current Authoritative Guidance: SSAP No. 71

#### Type of Issue:

Common Area

#### SUMMARY OF ISSUE

1. This issue paper documents for historical purposes the discussion of nonsubstantive revisions to *SSAP No. 71—Policy Acquisition Costs and Commissions*. The intent of these nonsubstantive revisions is to provide clarifying guidance to existing accounting requirements regarding levelized commission arrangements. The statutory accounting guidance in SSAP No. 71 has been in place since 1998 and is based on pre-codification guidance.

#### SUMMARY CONCLUSION

2. The nonsubstantive revisions to SSAP No. 71 adopted by the Statutory Accounting Principles (E) Working Group on March 15, 2021, the Accounting Practices and Procedures (E) Task Force on March 23, 2021, and the Financial Condition (E) Committee on April 13, 2021 (illustrated in Exhibit A), reflect the following:

- a. Provides additional descriptive guidance to assist with identifying levelized commission arrangements.
- b. Emphasizes the requirements noted in the original SSAP No. 71 guidance that levelized commission arrangements require full recognition of the liability amount. In addition, interest and or fees incurred to date are accrued.
- c. Specifies an effective December 31, 2021, for contracts in effect as of that date.

#### Policy Acquisition Costs Overview

3. Acquisition costs are those costs that are incurred in the acquisition of new and renewal insurance contracts and include costs that vary with and are primarily related to the acquisition of insurance contracts (e.g., agent and broker commissions, certain underwriting and policy issue costs, and medical and inspection fees). Pursuant to SSAP No. 71, as originally effective January 1, 2001, for the initial SAP Codification, specifically states that acquisition costs and commissions are expensed as incurred. This provision is a fundamental difference from U.S. generally accepted accounting principles (U.S. GAAP) and reflects a statutory concept that was employed prior to codification, as detailed in *Issue Paper No. 71—Policy Acquisition Costs and Commissions*.

- a. Under U.S. GAAP, paid or accrued acquisition costs, which include commission costs, are capitalized and reported as a deferred asset and expensed over time to match the recognition of revenue. Note that under U.S. GAAP and SAP, the liabilities associated with acquisition costs are the same. However, U.S. GAAP allows capitalization of certain acquisition costs where SAP requires immediate expense recognition. From information received on the

basis of U.S. GAAP, commission obligations from the writing of an insurance policy would be recognized as a deferred acquisition cost regardless of a third-party arrangement.

- b. The departure from U.S. GAAP is consistent with original and ongoing SAP concepts that focus on the solvency of reporting entities for the protection of policyholders and not the matching of revenue to expenses. As detailed in the Preamble, the ultimate objective of solvency regulation is to ensure that policyholder, contract holder and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute to provide a margin of safety.
- c. As detailed in the Statutory Accounting Recognition Concept, accounting treatments that defer expense recognition do not generally represent acceptable SAP treatment. Even if consideration had occurred to mirror U.S. GAAP and allow the capitalization of expenses as “deferred assets,” such assets would not be considered admitted assets for statutory accounting. This is because such items do not reflect assets with economic value available for policyholder claims. Nonadmitted assets are required to be charged to surplus in the period in which they arise. As such, in either scenario under SAP, the financial statements of the reporting entity would reflect a reduction of available surplus (either through the recognition of expense or through a direct surplus charge for nonadmitted assets) for acquisition costs and commissions.

### **Levelized Commission - Background**

4. Agenda item 2019-24 on levelized and persistency commission was drafted and presented to the Statutory Accounting Principles (E) Working Group at the request of a state department of insurance after the practice was identified on a financial examination. The issues received by the Working Group related to the use of levelized commission arrangements and the amount to be recorded as a liability in accordance with SSAP No. 71 and *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*.

5. Both SSAP No. 71 and SSAP No. 5R have relevant guidance on this topic:

- a. SSAP No. 71 describes levelized commission arrangements as follows:

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

- b. SSAP No. 5R defines liabilities as follows:

**Liabilities**

2. A liability is defined as certain or probable<sup>1</sup> future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or to provide services to other entities in the future as a result of a past transaction(s) or event(s).
3. A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable<sup>1</sup> future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened. This includes, but is not limited to, liabilities arising from policyholder obligations (e.g., policyholder benefits, reported claims and reserves for incurred but not reported claims). Liabilities shall be recorded on a reporting entity's financial statements when incurred.
4. Estimates (e.g., loss reserves) are required in financial statements for many ongoing and recurring activities of a reporting entity. The mere fact that an estimate is involved does not of itself constitute a loss contingency. For example, estimates of losses utilizing appropriate actuarial methodologies meet the definition of liabilities as outlined above and are not loss contingencies.

**Levelized Commission Funding Agreement**

6. The levelized commission arrangements identified for agenda item 2019-24 had the following key elements:
- a. A third party (referred to as a “funding-agent”) paid selling agents commission amounts for business directly written on behalf of the reporting entity. These payments typically occurred in the first year of policy issuance and were consistent with normal initial sales commissions considered policy acquisition costs.
  - b. The reporting entity repaid the funding-agent through a levelized commission arrangement that spread out the commission repayment over multiple years (e.g., 3-6 years). The yearly commission repayments to the funding agent also included additional fees and explicit or implicit interest charged to the reporting entity. Consistent with the guidance in SSAP No. 71, paragraph 4, this levelized commission arrangement is repaying the funding-agent amounts “which are less than the normal first year commissions but exceed the normal renewal commissions.” As noted, SSAP No. 71 characterizes such agreements as in substance, a funding agreement (i.e. loan).
  - c. The example agreement between the reporting entity and the funding agent specified that the funding agent will not be reimbursed by the reporting entity if the policies that generate the commission are cancelled prior to the policy anniversary date. This reduction in commission payment for policy cancellation is not materially different than direct agreements with agents that have commission “claw back” features. However, regardless of claw back features, commission is fully accrued and expensed upfront. In the event there

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<sup>1</sup> *FASB Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements*, states: Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in *FASB Statement 5, Accounting for Contingencies*, paragraph 3), and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.

is a policy cancellation / lapse, then the liability accrued and recognized expense is adjusted for the amount of the commission that will not be paid.

7. The regulator noted that the reporting entity was not accruing all of the commission liability to the third-party funding agent. The insurance reporting entity employing the disputed practice asserted that the payments to the funding agent were theoretically avoidable until the policy had passed the anniversary date. The reporting entity did not accrue the full amount of initial sales commission that had already been paid on its behalf by the funding agent, which should have been recognized at the time the policy was sold. Although the entity should have recognized the full initial sales commission per SSAP No. 71, the reporting entity also did not accrue the next total expected payment to the third-party. The reporting entity only accrued the next payment when they viewed it as “earned” by the third-party agent. This “earned” date was typically the next policy anniversary when the payment to the funding agent became unavoidable. With this approach, the reporting entity was essentially incorporating a 100% lapse assumption in their process to recognize commission expense, as they would only recognize the commission expense when the policy continued passed a specific lapse date. This assumption is not permitted in statutory accounting, and therefore not reflected in other aspects of their financial statements such as policy reserves.

8. The reporting entities employing the disputed practice asserted that even though commission has been paid by the funding-agent to the sub agent, that no commission should be accrued by the reporting entity until after the end of each policy year when the policy has persisted past its anniversary. The reporting entity was asserting that inserting a persistency clause into a funding agreement allowed them to avoid the liability accrual and expense recognition for the initial acquisition costs for the issued policy at the time the policy was issued.

9. The assertion from the reporting entity is not consistent with SSAP No. 71, paragraph 5:

5. The use of an arrangement where commission payments are not linked to traditional elements such as premium payments and policy persistency, but rather are linked to the repayment of an advance amount 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.

10. The regulator viewed the disputed practice as a misapplication of the levelized commission guidance in SSAP No. 71 and that the reporting entity was underreporting its sales commission expense incurred and the related commission expense liability.

## **DISCUSSION**

11. The accounting issue is whether levelized commission funding arrangements require the establishment of a liability for the full amount of the unpaid principal and accrued interest which is payable to a third party. The agenda item and the proposed revisions assert that guidance in SSAP No. 71, which has existed since prior to codification, requires accrual of the full amount that is repayable to the funding agent under the levelized commission agreement. It is important to highlight that the guidance in SSAP No. 71, nor the proposed clarifying edits, do not seek to prohibit funding agreements. The long-standing guidance simply requires full liability recognition to ensure continued consistent reporting across reporting entities of commission obligations.

12. During the discussion of the agenda item, it was identified that this disputed practice of not accruing the full liability for the commission expense was only employed by a small number of reporting entities that employ similar operational practices. It was identified that these limited number of insurers entered into third-party arrangements with the intent to defer the recognition of commission costs for surplus relief. This goes against long-standing statutory accounting guidance and results in those insurers presenting a better financial position than other reporting entities that applied the guidance in SSAP No. 71 when using third-parties to pay commission as well as reporting entities that pay commission directly to agents. The



application of this approach by the small number of reporting entities employing the practice resulted in significant differences impacting consistency and comparability in statutory financial statements. From information obtained, it is believed that a vast majority of companies are following the guidance in SSAP No. 71 as originally intended.

13. Research identified that some capital-funding companies were facilitating the practice, with marketing efforts to promote the surplus relief provided by using their structure as a third-party payer. These capital-funding companies were also active commenters in response to the proposed edits to clarify the guidance in SSAP No. 71. Throughout the Working Group discussion, it was identified that if the guidance is not clarified, then all reporting entities would need to contract with third-party agents to pay commissions to prevent competitive disadvantages in reporting financial results in the statutory financial statements. For the small number of companies that have engaged in this practice, these entities have benefited from lower expense recognition. It also results with a decrease in liabilities, resulting with a calculation that fewer assets are needed to meet obligations and improving overall RBC calculations. These results were identified as concerning as the financial statements do not accurately represent the obligations of the reporting entity from issued in-force policies and could hinder the proper assessment of whether there are appropriate assets available to satisfy policyholder claims and other contractual requirements of the reporting entity.

### **Development of Statutory Accounting Guidance**

14. SSAP No. 71 was adopted in 1998 as part of base codification, which went into effect in 2001.

15. *Issue Paper No. 71—Policy Acquisition Costs and Commissions*, paragraph 10 identifies the pre-codification statutory accounting guidance that is the basis for the existing SSAP No. 71 guidance. The pre-codification guidance also notes the same concerns (reiterated in the agenda item 2019-24) if reporting entities use levelized commission arrangements which operate as funding agreements to inappropriately enhance surplus. *Issue Paper No. 71—Policy Acquisition Costs and Commissions*:

10. Chapter 17, Other Liabilities, of the Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies contains the following guidance on levelized commissions:

#### **Levelized Commission**

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.

These transactions are, in fact, funding agreements between an insurer and a third party. Agents receive normal (non-level) commissions with payments made by the third party. It is intended, but not necessarily guaranteed, that the amounts paid to the agents would ultimately be repaid (with interest explicit or implied) to the third party by "levelized" payments (which are less than the normal first year commissions but exceed the normal renewal commissions) from the insurer. The continuance of the stream of payments specified in the levelized commission contract is a mechanism to bypass recognition of those expenses which are ordinarily charged to expense in the first year of the contract. Consequently, the normal link between the persistency of the policy, the continuance of premium payment or the maintenance of the agents license with the insurer is not maintained with respect to the payment stream.

The use of an arrangement where commission payments are not linked to traditional elements such as premium payments and policy persistency but rather are linked to the repayment of an advanced amount requires the establishment of a liability in the full amount of the unpaid principal and accrued interest.

16. The intent of SSAP No. 71 for levelized commissions is that repayment of an advance (by having a third party pay on the insurer's behalf), requires the establishment of a liability for the full amount of unpaid principal and accrued interest.

### **Contingent Commission versus Funding Agreement**

17. SSAP No. 71, paragraphs 3-5, which are excerpted in the relevant statutory accounting section of this issue paper, describes both contingent commission and levelized commission agreements.

18. Contingent commission: SSAP No. 71, paragraph 3 provides the following key points:

- a. Contingent Commission liabilities are to be determined in accordance with the terms of each individual commission agreement.
- b. Commission liabilities determined on the basis of a formula that relates to loss experience shall be established for the earned portion.
- c. Assumptions used to calculate the contingent commission liability shall be consistent with the terms of the policy contract and with the assumptions made in recording other assets and liabilities necessary to reflect underwriting results of the reporting entity, such as retrospective premium adjustments and loss reserves, including incurred but not reported.

19. Levelized commission: SSAP No. 71, paragraphs 4 and 5 discuss levelized commission with the following key points:

- a. Such transactions are noted as in substance to be a funding agreement or a loan between a reporting entity and a third party.
- b. Selling agents receive their normal commission from a third party and repayment of the commission amounts to the third party by the reporting entity are intended, but repayment (with interest explicit or implied) to the third party is not necessarily guaranteed.
- c. Commission repayment to the third party by the reporting entity is over time. The levelized commission payments are lower than normal first year (sales) commission, but higher than normal renewal commission.
- d. The levelized commission arrangements are described as an attempt to bypass the recognition of expenses, which are normally charged to expense in the first year of the insurance contract.
- e. This guidance also notes that the use of a levelized commission arrangement is an attempt to break the normal link between underlying policies and the expense recognition, by changing the timing of the payment stream.
- f. SSAP No. 71, paragraph 5 provides:

5. The use of an arrangement where commission payments are not linked to traditional elements such as premium payments and policy persistency, but rather are linked to the repayment of an advance amount 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.

20. The key differences between traditional contingent commission paid directly to the selling agent and a levelized commission funding agreement that uses a third-party funding agent were a major

component of the discussion prior to adopting the clarifying edits. The example brought to the Working Group was identified, by the regulator as a levelized commission funding agreement. Key levelized commission features of this example were: 1) the direct selling agents were paid their sales commission for policies written on behalf of the insurance reporting entity for year one commission by the third party; 2) the third-party funding agent was being repaid over time with some contingency elements in the third party levelized commission contract; and 3) the third party had typically advanced the funds to the selling agents in the same year that the policies were written (however some direct selling agents could choose different payment patterns).

21. Rather than accruing the total expected payments to the third party who had made commission payments to the direct selling agents, the reporting entity was only accruing commission expense based on when the next annual payment was due to the third-party. This levelized commission arrangement attempts to de-link the timing of recognition for the initial sales commission by inserting a third party.

22. As recognition of commission expenses is driven by policy events (such as the issuing or renewing of an insurance policy), the commission expenses had already been incurred, therefore, the reporting entities employing the disputed practice were viewed as underreporting their incurred commission expense and commission liabilities. This was not viewed as consistent with the principle of expensing acquisition costs when incurred or with the treatment of levelized commission funding agreements in SSAP No. 71.

23. In addition, it was identified that waiting to accrue the subsequent expected payments because the underlying policies might lapse in the future reflects a 100% lapse assumption. Using a 100% lapse assumption was noted as being inconsistent with the other financial statement assumptions regarding the underlying policies used for reserving, incurred but not reported claims, etc.

### **Contingent Commission versus Loan with Contingency Element**

24. Comments received often characterized the third-party funding agreements as a persistency commission as support for why the full commission expense should not be required. The use of the term “persistency” in these instances is not in line with the traditional use of this term as it pertains to insurance contracts. Fundamentally, a persistency commission is commission that is earned over time as a policy is renewed or remains in force. A persistency commission occurs subsequent to an initial sales commission, where the triggering event is either the continuation or renewal of a policy. With these terms, an additional commission (beyond what was earned from the initial sales commission) is owed once the policy ‘persists’ overtime. Persistency commissions are generally much smaller payments than initial sales commission.

25. The third-party funding agreements reference to persistency commission in their contracts is not referring to additional commission owed with the continuation or renewal of a policy. Rather, they have taken the position that deferring the initial sales commission overtime and requiring portions of that initial sales commission to be paid to the third-party as the contract remains in force is akin to a persistency commission. This is not an appropriate comparison. As detailed, commission liabilities and the recognition of commission expenses shall occur in accordance with policy events. As such, with the issuance of an initial policy, the initial sales commission shall be recognized, with a liability accrual until paid, and with the recognition of the commission expense. If a policy remains in force over time, the terms of the contract may require additional commission to be paid to the selling agent. These additional commission amounts are considered “persistency” commissions and are only recognized when the policy event occurs that triggers the commission to be owed.

26. The following examples are included to assist with illustrating these concepts:

- a. Single Premium Immediate Annuity (SPIA): On January 1, 2020, agent sells a SPIA insurance policy and is owed \$1,000 in initial sales commission. Over the next 10 years, if the policy continues to be in force, on January 1, the selling agent is awarded a persistency

commission of \$10, per year. This is a reward to the agent for the policy not being churned/terminated.

- b. Direct Agent Arrangement: On January 1, 2020, the reporting entity recognizes the \$1,000 as commission expense. On January 1, 2021 (and subsequent years) as the policy continues in force, reporting entity recognizes the \$10 persistency commission as incurred.
- c. Funding Agreement Arrangement: Rather than the reporting entity paying the \$1,000 initial sales commission directly to the agent upfront, the funding agent pays the initial \$1,000 commission to the selling agent. The insurer and the funding agent have an expectation that the reporting entity will repay the funding agent this amount over time. Under SSAP No. 71, an insurer is not permitted to insert a third-party to delay commission expense recognition. As such, under this arrangement the reporting entity insurer shall also recognize the full \$1,000 as commission expense on January 1, 2020. Additionally, the insurer should recognize the \$10 persistency commission on January 1, 2021 (and each year subsequent) if the policy continues to be in force. (This example does not reflect the recognition of the fees / interest of the funding agreement arrangement, which would also be required to be recognized.)

27. To be overly clear, the key concepts within these illustrations are as follows:

- a. The initial obligating event is the selling of the insurance contract. Commission expense for initial sales commission shall be recognized consistently by each insurer, regardless of third-party arrangements where a funding agent pays this on behalf of the insurer.
- b. The second obligation event is the persistency threshold in which additional commission is owed to the selling agent (policy did not lapse). This is also required to be recognized consistently by insurer regardless of any third-party arrangement.
- c. The small number of companies that have delayed recognition of initial commission expense due to the insertion of a funding agent have noted that their agreement allows them to avoid payment in the future even of policy cancellation (lapse). The proper accounting for commission in the event of policy lapse is to decrease the payable to the funding agent when the lapse occurs, not prior to the lapse.
- d. In addition to not altering the triggering event (initial issuance of policy), this dynamic does not reflect a traditional “persistency” commission. This funding agreement and use of a finance agent is simply a financing mechanism that the insurer has paid additional fees and interest to obtain. The proper accounting is to recognize the obligation for the full commission expense at the time of policy issuance, and then derecognize the obligation if, and only if, the insurer is no longer obligated to the funding agent. It is also noted that a third party would not pay large sums of money on an insurer’s behalf in an arm’s length transaction without an expectation of repayment.

### **Actions of the Statutory Accounting Principles (E) Working Group**

28. On August 3, 2019, 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 Working Group exposed initial revisions to paragraphs 2, 3, 4 and 5 which were intended to clarify both levelized and persistency commission because it was identified that some

entities were trying to characterize their funding agreements as persistency commission. Key points in the exposed guidance were that:

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

29. The exposed revisions were consistent with the original intent of SSAP No. 71 as well as the Statutory Statement of Concepts focusing on Recognition (excerpts from Preamble, paragraphs 37 and 38).

- a. Liabilities require recognition as they are incurred.
- b. Accounting treatments which tend to defer expense recognition do not generally represent acceptable SAP treatment.

30. On December 7, 2019, the Working Group exposed nonsubstantive revisions to SSAP No. 71 to provide clarifications to the long-standing levelized commissions guidance and provide additional guidance regarding commission that is based on policy persistency. The revisions proposed to clarify that a levelized commission arrangement (whether linked to traditional or nontraditional elements) requires the establishment of a liability for unpaid principal and accrued interest payable, regardless of the timing of payments made to a third party. Additionally, the exposed guidance required accrual of persistency commission over the associated policy period.

31. The December 7, 2019, revisions were to address some of the comments received from interested parties and two capital funding companies. It was affirmed that the levelized commission repayment amount is owed to the funding agent who made the advance on the insurer's behalf unless the policy has lapsed. It was noted that delaying payment to a third-party does not delay expense recognition. After this discussion, the guidance was exposed with the following revisions from the prior exposure:

- a. Paragraph 2 - Removed previously exposed revisions regarding persistency commission. These provisions were initially included because the levelized commission example included contingency features regarding repayment. Commenters expressed concern that the exposed revisions could have an inadvertent impact on traditional renewal commissions, which was unrelated to a levelized commission arrangement.
- b. Paragraph 3 - Added clarifying phrases regarding persistency commission accrual. The concept is that normal persistency commission is accrued for the period it relates to unless the policy is cancelled. This language was also added to address the industry comments regarding inadvertent impacts to traditional renewal commission.
- c. Paragraph 4 - Added two clarifying phrases to assist with identifying levelized commission funding agreements.
- d. Paragraph 5 - Added clarifying phrases regarding funding agreements.
- e. Footnote 1 - Redrafted to remove double negative wording.

32. The December 7, 2019, exposed nonsubstantive revisions were again intended to be consistent with the original intent of SSAP No. 71 as well as the Statutory Statement of Concepts focusing on Recognition (noted in the Preamble, paragraphs 37 and 38) stating that liabilities require recognition as they are incurred and accounting treatments which tend to defer expense recognition do not generally represent acceptable SAP treatment.

33. Notice of the December 7, 2019, exposure was also sent to the Life Actuarial (A) Task Force. The Working Group forwarded comments received at the 2019 Fall National Meeting inquiring whether there

is specific *Valuation Manual* language in *VM-20, Requirements for Principle-Based Reserves for Life Products*, and *VM 21, Requirements for Principle-Based Reserves for Variable Annuities*, that needs to be addressed in the coordination process as part of this agenda item. It was noted that the Principles-Based Reserving (PBR) methodology takes commission into account when projecting the present value of future cash flows. However, the projected future cash flows would not be accrued in duplicative if there is an existing liability.

34. On March 18, 2020, the Working Group, deferred discussion of this item for a subsequent call or meeting. This deferral occurred as the 2020 Spring National Meeting was cancelled for COVID-19, and the interim call held by the Working Group was limited in the topics to address.

35. During the July 30, 2020, meeting, the Working Group reviewed comments from interested parties and on behalf of two capital funding companies.

- a. The proposed language from interested parties and one of the capital funding entities, as detailed in the following subparagraphs, was rejected by the Working Group as not viable and inconsistent with existing principles.
  - i. Interested parties' proposed language recommended deleting most of the exposed revisions and adding guidance that would redefine a funding arrangement to only include those items where repayment is guaranteed. This proposal was noted as being in conflict with the long-standing guidance in SSAP No. 71, paragraph 4 which notes that "It is intended, but not necessarily guaranteed, that the amounts paid to the agents by the third party would ultimately be repaid..." It was also noted that the existing language in SSAP No. 71 seeks to look at the substance of the levelized commission arrangement noting that a third party would not prepay an entity's commission expenses without an expectation of repayment.
  - ii. One of the capital funding companies sent comments through a legal firm. Their comments proposed only requiring levelized commission liability recognition if the third party, which prepays the commission, is under the control or has common control with the insurance reporting entity. The perception of that comment was that if an unrelated party were the third-party funding agent that paid the upfront sales commission expense, no liability recognition would be required by the insurance reporting entity. This recommendation was also rejected as the substance of the transaction is a loan and the accrual of a liability for a loan is the same under SSAP No. 5R for related and unrelated parties.
- b. The Working Group also noted a concern with the capital funding company's comments regarding assumption of lapse risk by noninsurance entities such as brokers and other third parties. The capital funding company's comment letter (via the legal firm) asserted that the third-party broker, by virtue of their agreement, has assumed "lapse risk, mortality risk and the commission expense obligation." The Working Group noted that some of the identified items which were noted as being transferred to the broker are insurance risks that can only be transferable to an insurance entity through a reinsurance agreement.
- c. The comments from the other capital funding company focused on unintended consequences and potential impacts to various entities. It asserted that the clarifying edits to the existing language are a substantive change. The Working Group noted that the proposed revisions are trying to emphasize existing language that has been in effect prior to codification that is being ignored by some reporting entities in an attempt to defer

expense recognition. The Working Group affirmed that expensing acquisition costs when incurred is a long-standing principle in statutory accounting.

- d. While commenters agreed that the commission obligations are ultimately liabilities/expenses, they noted that the issue is when to record the liability/expense. The discussion noted that the accrual of sales commission liabilities and the corresponding recognition of expenses are incurred when the insurance contract is written, not when the payment is due. It also noted that an insurer is responsible for the policy acquisition costs of its directly written policies.

36. After the discussion on July 30, 2020, the Working Group exposed additional nonsubstantive revisions to SSAP No. 71 to clarify the original levelized commission guidance and provide additional direction regarding commissions that are based on policy persistency. The exposed edits would require reporting entities that have not complied with the original intent of SSAP No. 71 to reflect the change as a correction of an error (as a mistake in the application of an accounting principle) pursuant to *SSAP No. 3—Accounting Changes and Corrections of Errors* in the December 31, 2020, financial statements. In accordance with SSAP No. 3, correction of accounting errors in previously issued financial statements, for which an amended financial statement was not filed, are to be reported as an adjustment to unassigned funds (surplus) in the period in which the error was detected. This guidance also requires disclosure in accordance with SSAP No. 3. Part of the reason the exposure included correction of error guidance, as opposed to change in accounting principle, is that the Working Group identified that the practice was employed by a small number of reporting entities purposely for surplus relief and it was viewed as inconsistent with the long-standing guidance in SSAP No. 71. Further, it was identified that some funding companies were actively promoting the use of these third-party arrangements as a way to increase surplus by avoiding the recognition of commission expense when incurred.

37. On October 15, 2020, the Working Group held a hearing to receive comments from interested parties and from the American Institute of Certified Public Accountants' NAIC Task Force (AICPA Task Force).

38. Both interested parties and the AICPA disagreed with the correction of an error treatment and stated a preference to have the classification as a change in accounting principle. It was noted that referring as a correction in error could result with issues in previously filed financial statements, prior exams, and previously issued audit opinions. The Working Group agreed to remove the previously exposed correction of error guidance in paragraph 7 and to revert to the change in accounting principle guidance. When making this decision, it was noted that the resulting financial statements would ultimately have a similar result. Under the change in accounting principle guidance, a reporting entity reflects the cumulative effect of the change as an adjustment to unassigned funds (surplus) in the period of change of the accounting principle. This guidance provides that the cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date as if the accounting principle had been applied retroactively to all prior periods. For a correction of error, domiciliary states may require entities to file corrected financial statements for all prior periods that reflected the error. If this direction does not occur, the change is required as an adjustment to unassigned funds in the period the error is detected. As such, by permitting this correction to be reported as a change in accounting principle, the impacted reported entities will not be subject to different treatment by domiciliary states with the resubmission of previously filed financial statements to correct the error. Rather, all impacted entities will have a consistent approach to update their financial statements accordingly.

39. The Working Group discussed the other comments and proposed revisions from interested parties regarding contingency commission. The Working Group did remove more of the contingent commission guidance that was previously exposed in paragraph 3 to address concerns regarding potential impacts on

traditional commission and renewals. This was viewed as addressing the remaining concerns about unintended impacts from the majority of industry that is not using funding agreements.

40. The Working Group also agreed to move the proposed effective date to January 1, 2021, to allow the small number of entities that are employing the practice the opportunity to consult with their domiciliary regulators.

41. With this discussion the Working Group again highlighted that the revisions are a nonsubstantive clarification of existing longstanding provisions of SSAP No. 71 which have been in place before 1998 and are only not being applied by a small number of reporting entities. As some commenters noted the materiality impact to the small number of entities that engaged in this practice, it was noted that under the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, it is not the impact of a change on an individual entity that determines whether a change is substantive or nonsubstantive, but rather if the change alters original intent.

Excerpt from Policy Statement on Maintenance of Statutory Accounting Principles:

Nonsubstantive revisions to SAP will be developed to address, but will not be limited to: 1) clarification of the intent or application of existing SSAPs; 2) new disclosures and modification of existing disclosures; 3) revisions that do not change the intent of existing guidance; and 4) revisions to Appendix A—Excerpts of NAIC Model Laws to reflect amendments to NAIC adopted model laws and regulations.

42. After the discussion on October 15, 2020, the Working Group exposed updated revisions to SSAP No. 71 to clarify existing levelized commissions guidance, which requires full recognition of funding agreement liabilities incurred for commission expenses obligated when an insurance policy is written. (This guidance clarifies that writing the insurance policy is the obligating event for initial sales commission.) The exposed revisions have the following key changes from the prior exposure:

- a. Improved description of the funding agreements in paragraphs 4 and 5.
- b. Deletes the previously proposed revisions in paragraph 3 regarding other types of commission to address the comments received regarding unintended impacts on traditional renewal commission.
- c. Modifies the revisions in paragraph 7 to remove the language on correction of an error.
- d. Proposes the nonsubstantive revisions apply to contracts in effect on January 1, 2021.

43. On November 12, 2020, the Working Group held a hearing to receive comments on the October exposure. Comments were received from interested parties, the Mississippi Department of Insurance and a former New York state regulator. Key points from the review of comments were as follows:

- a. Given the year-end timing and the material impact to what is believed to be a very limited number of companies, the Working Group discussed having another exposure, with minor edits, to clarify that the revisions would apply to contracts in effect as of the effective date to later be specified by the Working Group. While the Working Group did not want to have the guidance in effect on January 1, 2021, a few members stated a preference to having the guidance effective upon adoption sometime in 2021.



- b. The Working Group discussed the comments from the Mississippi Department of Insurance, interested parties and a former New York regulator that the changes appear to be substantive.
    - i. It was identified that the revisions have already had the due process required for either a substantive or a nonsubstantive change since it has had multiple exposures and public discussions.
    - ii. The Working Group affirmed that the proposed revisions are a nonsubstantive clarification of existing longstanding provisions of SSAP No. 71 which have been in place since prior to 1998. It was noted that under the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, it is not the impact of a change on an individual entity that determines whether a change is substantive or nonsubstantive, but rather if the change alters original intent.
    - iii. It was also noted that the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles* allows for drafting of an issue paper subsequent to the adoption of revisions. An issue paper can be drafted for either substantive or nonsubstantive revisions.
  - c. The former New York regulator generally opposed all of the revisions. He noted that the total commission paid will not change under this guidance, but rather only the timing of commission expense recognition will change. In response to these comments, Working Group members noted that the total commission expense is actually higher using these third-party arrangements because the funding agents charge interest and/or fees.
44. The Working Group also discussed and rejected the following revisions proposed by interested parties:
- a. The proposed interested parties' revisions would have allowed both a reduction in commission expense recognition and the delay in commission expense timing. The parties employing the disputed practice are trying to use persistency features in a funding agreement to defer and decrease the funding agreement liability. Interested parties' comments advocated that the funding-agent fronting commission does not require recognition because of the insertion of a persistency contingency provision into the funding agreement. They noted that this persistency contingency provision might allow the reporting entity to avoid repayment of the past advance if the policy is subsequently cancelled. These proposed revisions were not incorporated as they are not in line with the original intent of the guidance and because it is not permissible to assume 100% lapse risk in recognition commission expense. It is only if a policy has been cancelled can a reporting entity derecognize the accrued liability/ commission expenses.
  - b. Interested parties' proposed revisions that commission funding agreements should only be accrued when repayment is guaranteed. This position has been previously rejected by the Working Group as it is in direct conflict with the existing guidance in SSAP No. 71, paragraph 4 which requires accrual of the full amount of a levelized commission agreement even when repayment is not guaranteed. It was noted that the purpose of the levelized commission guidance is to identify that the substance of the levelized commission is a funding arrangement. It identifies that a third party in an arm's length transaction would not pay acquisition costs on behalf of an insurer without expectation of repayment and expectation of profit. The guidance requires recognition of the full amount of the funding agreement liability even if repayment is not guaranteed. The funding agreement is an

attempt to de-link the relationship to the underlying policy from the normal day one accrual of sales commission. The funding agreement advance made by the third party is made with an expectation of repayment. Thus, the liability for amounts already advanced by the funding agent is not extinguished as a liability (under SSAP No. 5R or SSAP No. 103—*Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*) until it has either been repaid or the policy is cancelled.

- c. The interested parties recommended revisions to recognize a reduced and delayed liability for the funding amount. They recommended ignoring the funding agreement nature of the advances and only recognizing the next payment because the policy might be cancelled in the future. It was again noted that this is the equivalent of assuming a 100% lapse rate on the policies. This position is similar to setting up the liability for a single payment on a loan instead of the entire principal balance. This proposed revision was rejected as inconsistent with the existing guidance in SSAP No. 71 which requires full accrual of the funding agreement liability.
- d. Interested parties' recommended revisions to add a new reference to *SSAP No. 52—Deposit Type Contracts* for the recognition of funding agreement liabilities. This was possibly an attempt to allow the funding agreement liability to be calculated using actuarial assumptions in the calculation of the liability. This would be inconsistent with SSAP No. 71 which does not allow discounting of such a liability.
- e. Interested parties commented that "SSAP No. 71 is consistent in the application of persistency being part of the transfer of the risk (liability) to another party. If the lapse risk (persistency) is transferred to another party, the liability that the insurance company may have, is also transferred to that party and the insurance company has no liability." However, it was noted that guidance in Appendix A-791 on Life and Health Reinsurance identifies that lapse risk, which is an insurance risk, can only be transferred via reinsurance. The Working Group disagreed that insurance risk liabilities can be extinguished with a commission agreement with a noninsurance entity, which seems to be the position of interested parties.
- f. It was also noted that because of the persistency feature in the funding agreement, interested parties' commenters were advocating to not recognize any commission expense in these arrangements until it is due to the third-party agent. Similar to other positions, this is the equivalent of a 100% lapse assumption. This assertion is not consistent with any other assertions reflected in the recognition of these insurance policies in their financial statements.
- g. The Working Group did not support the comment by interested parties that under a levelized commission agreement another party is responsible for an insurer's acquisition costs. It was noted that statutory accounting requires acquisition costs to be expensed as incurred, not shifted to a non-insurance entity. Interested parties were asserting that even though a third party prepaid their acquisition costs that they do not have to recognize an accrual for the levelized commission funding agreement. This position was rejected by the Working Group. The Working Group affirmed that a funding agreement is not the same as traditional persistency commission. The Working Group affirmed the original SSAP No. 71 guidance that the substance of a levelized commission agreement is a loan.

45. The Working Group discussed the overall statutory accounting concepts of conservatism and consistency which require that statutory financial statements reflect assets available for policyholder claims with comparable financial information. It was noted that allowing delayed expense recognition of initial policy commission expenses will contradict both statutory accounting concepts, as assets will be included that are not available for policyholder claims (as they are needed for non-recognized commission expenses)

and will result with financial statements that are not comparable to other insurance entities. Working Group members also expressed concerns with the competitive advantages that were occurring with companies that were employing these practices and stated a preference to have the guidance in effect in 2021.

46. After the discussion on November 12, 2020, the Working Group took the following actions:

- a. The proposed effective date of January 1, 2021 was changed to be effective upon adoption, and revised text was added to explicitly state that the proposed revisions will apply to contracts in effect as of the date of adoption.
- b. Determined that the revisions to SSAP No. 71 had met the due process for either a substantive or a nonsubstantive revision but concluded to keep the revision classified as nonsubstantive as the edits are in line with the original intent of SSAP No. 71. The Working Group reiterated that it is not the impact of a change on an individual entity that determines whether a change is substantive or nonsubstantive, but whether the revision is in line with the original intent of the SSAP. The Working Group noted that the proposed revisions to SSAP No. 71 are clarifications to the existing guidance consistent with original intent. Commissioner Donelon (LA) noted an objection to the classification as nonsubstantive.
- c. Directed NAIC Staff to draft an Issue Paper to document the discussion on this topic for historical purposes.

47. On March 15, 2021, the Working Group discussed written comments received from six parties including the 1) Montana Commissioner (now U.S. Representative) Matthew M. Rosendale, Sr., 2) a former North Carolina Commissioner 3) National Council of Insurance Legislators (NCOIL), 4) Interested parties, 5) one capital management company, and 6) a national conglomerate insurer. The key points from comments were summarized and draft responses were provided in the hearing materials for the meeting.

- a. Comments that there is no reason to change as current programs have been around for decades, been subject to external audits and insurance examinations and have not previously been noted of concern. (Montana commissioner, former North Carolina commissioner, capital company and the national conglomerate insurer).
- i. Materials response - It was noted that identifying levelized commission transactions is difficult, without an in-depth review. When this was identified on a 2017 state examination, the reporting entity refused to recognize the full liability, which is why this issue was brought to the Working Group. The guidance to recognize the full liability amount for a levelized commission transaction has been a statutory accounting requirement since before 1998. This guidance is in place to recognize that the substance of an arrangement that has a third party pay an insurer's sales commission costs, is a loan. This is because a third party would not pay out large amounts of costs on another's behalf without an expectation of repayment.
- b. Comments that the change is substantive based on impact and needs more study and review for unintended consequences. (Montana, former North Carolina commissioner, NCOIL, interested parties, the capital company and the national conglomerate insurer)
- i. Materials response - As noted in earlier meetings, under the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, it is not the impact of a change on an individual entity that determines whether a change is substantive or nonsubstantive. To the extent this is a clarification of existing guidance, the revisions are consistent with the nonsubstantive classification.

- ii. Materials response - Agenda item 2019-24 has been under discussion since August 2019, and the March 2021 meeting will be the sixth public discussion of this item. This item has been discussed: 1) August 2019; 2) December 2019; 3) July 2020; 4) October 2020; 5) November 2020 and 6) March 2021. It was noted that the underreporting of commission liabilities appears to be a practice employed by only a very small number of reporting entities.
- c. Comments that there can be a negative RBC impact. The former North Carolina Commissioner, NCOIL, and the capital company all noted concern with the potential negative impact to risk-based capital which will result with the revisions requiring companies employing the disputed practice to recognize the full funding agreement.
  - i. Materials response - Reporting previously unrecognized liabilities can have negative RBC impacts; this is why the adoption of the agenda item was delayed from year-end 2020. The delay was to allow the small number of reporting entities which are employing the disputed practice to have an opportunity to have discussions with their regulators. However, it is highlighted that the unrecognized liability also resulted with improved financial statements (and better RBC) than what should have been recognized based on actual operations.
- d. Possible consumer rate increases on guaranteed renewable long-term care were noted by the former NC commissioner and the capital company.
  - i. Materials response - The disputed practice is underreporting incurred commission expense and the obligation to repay it to a funding agent. This financing activity is being used to delay / under report incurred commissions. However, the total commission cost is typically slightly higher as the funding agents charge a fee and or interest (implicit or explicit ) for their services. As such, the full financial statement impact is not as clear cut as implied in this comment.
- e. Effective date comments were varied. NCOIL was against a 2020 effective date, however that comment appeared to be related to the prior October exposure. NCOIL also requested a delay for the issue paper and recommended a five-year phase-in. The interested parties and the national insurance conglomerate advocated for an effective date no sooner than December 31, 2021, to allow time to work with regulators, auditors etc.
  - i. Materials response - Effective Date - The Working Group discussed proposed language which allows a December 31, 2021, effective date.
  - ii. Materials response - Phase-in - This is viewed as a practice employed by a small minority of reporting entities, but the potential impact is material. Some Working Group members and some members of industry have noted the unfair competitive advantage that entities which employ this practice are receiving, because it underrepresents the incurred liabilities. Prior Working Group discussions have indicated that a phase-in would need to be a permitted practice granted by the domiciliary regulator.
- f. Interested parties' comments asserted that lapse risk under the contracts had been transferred to a noninsurance entity, with the following comments "The existing SSAP No. 71 guidance is consistent in the application of persistency being part of the transfer of the risk (liability) to another party. If the lapse risk (persistency) is transferred to another party, the liability that the insurance company may have, is also transferred to that party and the insurance company has no liability. Removing persistency as a factor in the accrual of

commissions is a dangerous precedent. The differentiation between commissions based on real insurance risks versus payments based solely upon the passage of time in SSAP No. 71 goes directly to the risk transfer issue of one type of level commissions versus another. The proposed additional language eliminates this differentiation.”

- i. Materials response - Statutory accounting guidance in Appendix A-791 on Life and Health Reinsurance identifies that lapse risk can be transferred via reinsurance. Transferring lapse related liabilities with a commission agreement with a noninsurance entity, was not viewed as a viable option under statutory accounting. The long-standing guidance in SSAP No. 71 requires full accrual of the funding agreement liability even if repayment is not guaranteed.
  - ii. Materials response - Because of the persistency feature in the funding agreement, interested parties’ commenters are advocating to not recognize any commission expense in these arrangements until it is due to the third-party agent. This is the equivalent of a 100% lapse assumption. This assumption would be inconsistent with any other assertions reflected in the recognition of these insurance policies in their financial statements. The overall statutory accounting concepts of conservatism and consistency require that financial statements reflect assets available for policyholder claims with comparable financial information. Allowing delayed expense recognition of initial policy commission expenses will contradict both statutory accounting concepts, as assets will be included that are not actually available for policyholder claims (as they are needed for non-recognized commission expenses) and will result with financial statements that are not comparable to other insurance entities.
- g. Interested parties resubmitted some of the previously rejected proposed paragraph 4 revisions which seek to codify the industry position that funding agreements, which incorporate contingencies linked to traditional elements, should not be treated as a funding agreement (i.e. excluded from liability recognition).
- i. Materials response - The proposed revisions were not incorporated as proposed language seeks to codify the treatment which has previously been rejected as inconsistent with the guidance in SSAP No. 71.
- h. Interested parties resubmitted some of the previously rejected proposed paragraph 5 revisions to replace most of the exposed paragraph with language that is less detailed and which seeks to codify the industry position that funding agreements which incorporate contingencies linked to traditional elements should not be treated as a funding agreement (i.e. excluded from liability recognition).
- i. Materials response - The proposed revisions were not incorporated as proposed language seeks to codify the treatment which has previously been rejected as inconsistent with the guidance in SSAP No. 71.
- i. Interested parties commented that the exposed language which describes funding agreements, is too broad. Notes a concern that interim pay downs are not mentioned.
- i. Materials response - Additional guidance regarding interim payments to paragraph 5, were not added because liabilities are always reduced when paid. This is detailed in SSAP No. 5R and SSAP No. 103R.

48. Interested parties commented that, “The current revisions require the accrual of a liability in situations that are inconsistent with the guidance SSAP No. 5R. Under a levelized commission program a third party has the obligation for the full initial sales commission. The insurer’s obligation under a levelized commission program that incorporates persistency should be accrued to the extent of legally contracted amounts owed. We do not believe the original intent of the SSAP required accruing for amounts that are not yet due and that may never be due. We strongly feel that the recognition of an obligation based on persistency is in accordance with the principles of SSAP 5R.”

- a. Materials response - The comment by interested parties indicates that under a levelized commission agreement another party is responsible for an insurer’s acquisition costs. This is not appropriate as statutory accounting requires acquisition costs are expensed as incurred, not shifted to a non-insurance entity. The position of interested parties is that even though a third party prepaid an insurer’s acquisition costs that the insurer does not have to recognize an accrual for the levelized commission funding agreement because in some situations such as future policy cancellation, the insurer might not have to pay. This is rejected as inconsistent with SSAP No. 71 guidance and inconsistent with SSAP No. 5R.
- b. Materials response - SSAP No. 5R incorporates an obligation to recognize contingent amounts that are probable and can be reasonably estimated. The difference is that a levelized commission arrangement is repaying a loan where in most cases the advance of the loan amount has already been made. The loan has contingency elements that may allow the loan repayment to be reduced in the future. Until the policy is cancelled there is a presumption that the amounts will be repaid. This is different from making a future commission payment on commission that has not yet been earned which occurs under traditional persistency commission. The elements of a liability under SSAP No. 5R:
  - i. Current obligation to pay for a past transaction - the insurer has a contract to repay the funding agent (current obligation). The service that is being paid for is the selling agent's sale of the insurance contract (past transaction). The guidance in SSAP No. 71 provides that related interest payments for the financing charges do not meet the definition of a liability until the passage of time for the interest has occurred. The insertion of a persistency element to the funding-agent funding agreement does not extinguish the entire pending liability. Such a liability would only be extinguished by payment or other legal release such as policy cancellation. The advance liability to the third party is for a past transaction- that is, the funding agent has paid commission to the direct agents for the sale of the policy.
  - ii. Payment probable of occurring - Payment of the obligation has to be probable of occurring. The only difference between the "persistency linked" funding arrangement and one where payment is guaranteed, is obviously the potential that principal will not be repaid due to lapse. However, the funding agents are not taking this risk without being compensated. The funding agreements are using a conservative estimate of expected lapses and factoring in a profit for the funding agent, hence the existing wording in SSAP No. 71 regarding interest explicit or implied. Therefore, a third-party funding agent would not be willing to provide financing if they did not think it was probable that they would have their full investment, plus a return on investment repaid. As such, the probable element of SSAP No. 5R is also met. The payment is probable and can be estimated and therefore meets the accrual requirements of SSAP No. 5R.

49. On March 15, 2021, the Working Group discussion included the following key points:

- a. Mr. Bruggeman (OH) and Ms. Marcotte (NAIC) introduced agenda item 2019-24: Levelized and Persistency Commissions. The Working Group has been discussing this topic since August 2019 with this being the sixth public discussion. This agenda item was drafted in response to a specific state insurance regulator request to address an accounting practice identified during a financial examination. It was noted that a few insurers are utilizing a disputed practice by using third parties to pay policy acquisition costs, and they are not recognizing the full liability to repay those third parties. Not recognizing the full liability to repay the parties who are paying acquisition costs on an insurer's behalf is inconsistent with the guidance in *SSAP No. 71—Policy Acquisition Costs and Commissions*. SSAP No. 71, which has been in place prior to 1998, provides statutory accounting guidance and identifies such agreements as funding agreements, which require full liability recognition. Mr. Bruggeman stated that NAIC staff have provided a summary of comments received, which includes a response to each position. Accordingly, NAIC staff are not recommending additional modifications.
- b. Commissioner Mulready (OK) inquired as to whether actions taken by the Working Group regarding this project would go through the complete NAIC committee process, including reporting to the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee and review by the Executive (EX) Committee and Plenary. Mr. Bruggeman stated that due to the controversial nature of this topic, this agenda item will be specifically considered through all levels of the committee process.
- c. Commissioner Mulready further inquired regarding the expense recognition and payment of cashflows for using a third party to pay policy acquisition costs compared to insurers who directly pay commission expense. Mr. Bruggeman stated that traditional life insurance policies typically have a larger commission in the first year the policy is written. Through the use of a third party, some insurers have used a levelized repayment plan, so the first-year commission is repaid over several years. Additionally, the immediate expense recognition for this first-year commission, as required under SSAP No. 71, is not being properly recognized by some insurers in the year of acquisition. As a third party has remitted funds on behalf of an insurer, the insurer needs to properly recognize the loan as a liability.
- d. Commissioner Mulready inquired about lapse risk, which is a common element built into these financing agreements. Mr. Bruggeman commented that lapse risk cannot be transferred to a noninsurance entity; and SSAP No. 71 still requires the liability to be recognized, even if repayment to the third party is not guaranteed. Mr. Bruggeman further stated that by not recognizing the full commission financing liability, an insurance company is asserting a 100% lapse rate, which is not an appropriate assumption and not consistent with the reserving methodology used for these products.
- e. Ms. Nettleton (Guggenheim) stated that levelized commissions are not a new concept. She noted that a 2010 U.S. Securities and Exchange Commission (SEC) complaint against another carrier notes that levelized commissions were common practice. She stated that the concept of persistency remains a concern, as Guggenheim believes expense recognition will occur earlier than has traditionally been required. She stated that Guggenheim feels it is a dangerous practice to remove persistency in the treatment of levelized commission. Mr. Bruggeman stated that the concepts regarding traditional persistency commission are not a part of the proposed edits, as this agenda item is to clarify that initial acquisition costs should not be deferred through the use of a funding agreement.

- f. Mr. Stolte (VA) stated that in 1991, Virginia had an insolvency in which the company participated in a structure where it utilized a levelized commission financing arrangement and did not properly recognize a liability for the amounts paid by the third party. However, as the insurer was liquidated, the third-party financier sought reimbursement for commission amounts previously forwarded on behalf of the insurer. Mr. Stolte stated that the insurer had not recorded the full amount of the liability, and this overstated surplus. He stated that if these amounts due are not recorded, they are in essence off book, unrecorded liabilities. He stated that the concept of recognizing commission expenses when incurred has been a long-standing concept of statutory accounting, which was noted even prior to codification. He noted that acquisition costs are expensed as incurred upfront.
- g. Commissioner Donelon responded that the insurer referenced by Mr. Stolte did a levelized commission practice; however, he perceived the accounting practice was fully transparent, and the \$16 million amount of the off-balance sheet liability only represented a fraction of the \$120 million insolvency. He stated that earlier exposures of this item, involved other large life insurers; however their earlier concerns appear to have been accommodated. He inquired regarding the nature of this accommodation. Mr. Bruggeman stated that this comment pertains to clarification involving true persistency commissions—i.e., subsequent year commissions—were not intended to be captured in the scope of levelized commissions revisions in SSAP No. 71. He said the initial revisions were perceived by the broader insurance industry as affecting traditional persistency commission and the Working Group subsequently clarified that that was not the intent of the revisions. Ms. Gann (NAIC) stated that SSAP No. 71 is a common area SSAP, so it is applicable to all insurer and product types. She stated that the intent of the SSAP No. 71 revisions is to capture initial acquisition costs and commissions from the issuance of a policy, not traditional persistency commissions that arise subsequent to initial commissions which are common in many insurance products.
- h. Thomas B. Considine (National Council of Insurance Legislators—NCOIL) stated that NCOIL believes that the changes proposed are substantive in nature and the timing of an adoption is less than prudent, especially in light of the current economic environment. He noted that the revisions will have adverse capital consequences on some companies. Companies utilizing levelized commission structures have done so for decades, and in conjunction with this requiring a significant financial impact, NCOIL would recommend a four or five-year phase-in of expense recognition. Mr. Stolte stated that in response to a multi-year phase-in request, insurers affected could request a permitted practice from their state of domicile. In doing so, a multi-year phase-in could be granted; however, the financial and capital impact could be appropriately disclosed. Mr. Considine stated that permitted practices are not viewed as favorably as uniform treatment, and this would not be a preferred solution.
- i. Lynn Kelley (Delaware Life), on behalf of interested parties, stated that they do not agree with the proposed edits, and they believe the edits are substantive in nature. She stated that interested parties believe that their accounting practices have been in compliance with SSAP No. 71 and have been subject to numerous insurance exams and independent financial audits. If adopted by the Working Group, an effective date no earlier than December 31, 2021, is requested. She stated her support also for a multi-year phase-in.
- j. Mr. Bridgeland (Center for Insurance Research—CIR), NAIC consumer representative, stated that the most important function of statutory accounting is to ensure solvency and a level playing field among similar insurers. He stated that an insurer's financial statements



should reflect capital available to pay policyholder claims and not permit off-balance sheet liabilities. Despite this requiring material adjustments to a few insurers, he stated that adoption was recommended to ensure that financial statements appropriately reflect an insurer's financial position. He stated that if deferring the recognition of commissions is what is maintaining a company in the appropriate risk-based capital (RBC) range, then the company may warrant additional scrutiny for other areas as well.

- k. Mr. Bruggeman stated that as the edits proposed do not change the original intent of SSAP No. 71, he views the edits as nonsubstantive in nature. He stated that the concept of requiring immediate expense recognition of initial acquisition costs meets the spirit of statutory accounting concepts, as well as the concept of conservatism as referenced in the preamble. Commissioner Donelon stated that he believes this issue to be substantive in nature, even if it is not in the technical accounting sense. He indicated that the reporting entity that contacted him indicated that it will not have a materially adverse impact on them. However, he has been told that there are reporting entities that will have a significant financial impact on some small companies, and it will jeopardize members of the ACLI and the National Alliance of Life Companies (NALC). He stated recommendation for grandfathering of existing practices or a multi-year phase-in of any recognition requirements. He stated his agreement with Mr. Considine that a permitted practice is not preferred. Mr. Smith stated that when referencing the definitions of substantive versus nonsubstantive in the *Accounting Practices and Procedures Manual* (AP&P Manual), the exposed edits are nonsubstantive in nature.
- l. Commissioner Mulready stated that this practice has been in place for decades, and to classify this as nonsubstantive signifies to him that all prior insurance exams and independent audits are incorrect. Ms. Andersen (IL) stated that the proposed edits are only clarifying in nature, as they do not change the intent of SSAP No. 71. She stated that this practice has only been employed by a small number of insurance entities, and it results in liabilities that are not recorded in the financial statements. Mr. Stolte stated that commission financial arrangements are difficult to discover; in the prior insolvency example referenced, it was not until the company was in receivership that the issue was discovered. He noted that such arrangements create illusory surplus and violate the concepts of statutory accounting and audits do not review every single contract.
- m. Mr. Bruggeman stated that nonsubstantive agenda items are generally effective immediately; however, due to the nature of this topic, it will need to be approved by the Accounting Practices and Procedures (E) Task Force, the Financial Condition (E) Committee, and the Executive (EX) Committee and Plenary. With the Executive (EX) Committee and Plenary not meeting until the Summer National Meeting, the earliest this adoption could take effect is likely the third quarter of 2021. Mr. Smith (VA) stated that due to the length that this agenda item has been discussed, they would support an immediate effective date. Ms. Belfi (CT), Mr. Fry (IL), Mr. Clark (IA) and Mr. Kim Hudson (CA) recommended a December 31, 2021, effective date. due to the likelihood of a significant financial impact combined with the requirement for adoption by the Executive (EX) Committee and Plenary. In an inquiry from Mr. Bruggeman, no Working Group member was opposed to a December 31, 2021, effective date, which is the effective date suggested by Delaware Life per the comments from Ms. Kelley.
- n. As this agenda item directs that any adjustments be accounted for as a change in accounting principle under *SSAP No. 3—Accounting Changes and Corrections of Errors*, the effective date will not have a material impact, as any required cumulative adjustments calculated as of January 1, 2021, will impact unassigned funds (surplus). Mr. Bruggeman stated that

upon adoption, insurers will be required to record a liability for outstanding amounts due to a third-party funding agent as a cumulative effect adjustment to surplus as of January 1. He noted that activities throughout the year after January 1 are recorded through income.

50. On March 15, 2021, the Working Group took the following actions with Louisiana voting in opposition.

- a. Directed NAIC staff to update this Issue paper for March 2021 and subsequent actions to allow for future exposure. It was noted that the non-authoritative issue paper does not need to be adopted prior to implementation of the SSAP No. 71 revisions.
- b. Supported an annual statement blanks proposal to provide a new general interrogatory to identify the use of a third party for the payment of commission expenses, which will be concurrently exposed with the Blanks (E) Working Group.
- c. Adopted the exposed revisions to SSAP No. 71 with a December 31, 2021, effective date. The Working Group affirmed the nonsubstantive classification of these revisions as consistent with the original intent of SSAP No. 71.

51. On March 23, 2021, the Accounting Practice and Procedures (E) Task Force adopted the report of the Working Group. The Task Force conducted a separate vote on the SSAP No. 71 revisions. The motion passed with 41 in favor and the states of Louisiana and Oklahoma opposed.

52. Key aspects of the March 23, 2021, Task Force discussion are provided below.

- a. Mr. Bruggeman provided an overview of agenda item 2019-24 regarding levelized commission, which affects *SSAP No. 71—Policy Acquisition Costs and Commissions*. He stated that the Working Group has been discussing this item since August 2019, when it was brought to the Working Group by a domiciliary state. Mr. Bruggeman stated that after six public discussions, the nonsubstantive revisions that clarify the guidance in SSAP No. 71 regarding levelized commissions were adopted on March 15, 2021, with a December 31, 2021, effective date. Thirteen Working Group members voted in favor of adoption, and one member was opposed.
- b. Mr. Bruggeman stated that both U.S. GAAP and SAP would calculate acquisition costs in a similar manner. However, one of the major financial reporting differences between SAP and GAAP is that GAAP capitalizes acquisition costs and expenses them over time to match revenue and expenses while SAP expenses policy acquisitions costs as incurred. Mr. Bruggeman stated that at the heart of this issue is that a small number of reporting entities are using third parties to pay their sales commission costs and not recognizing the full liability of what is in essence a loan to repay the third parties as required under SSAP No. 71. He said that the Working Group has had extensive discussion on this topic and has noted that the revisions clarify the long-standing principles in SSAP No. 71, which have existed since even prior to codification. He stated that the revisions were classified as nonsubstantive because the revisions emphasize the original principles regarding funding agreements and the impact to a minor number of companies do not determine the classification of the revisions.
- c. Mr. Bruggeman noted that state insurance regulators and consumer representatives also voiced concerns about the illusory surplus and unlevel playing field such arrangements create. He stated that because of the unfair competitive advantages that are perceived, the Working Group was not in favor of grandfathering the practices. He noted that the Working Group did discuss that companies could have discussions with their domiciliary states

regarding obtaining a permitted practice for phasing in the financial impact, because the impact to the affected companies may vary.

- d. Louisiana staff stated that Commissioner James J. Donelon could not attend the meeting, but he wanted his comments that this is a substantive change noted and also that he is in favor of a phase-in period. Oklahoma staff also noted that Oklahoma also supports the comments from Louisiana.
- e. Ms. Kelley (Delaware Life) stated that their position is also that the revisions are substantive and that they appreciate the time that the Working Group has spent discussing this issue even if not all of the edits they submitted were incorporated. She also stated support for an effective date at least as late as December 31, 2021.
- f. Elly Nettleton (Guggenheim Life and Annuity) highlighted two points from their prior comment letters: 1) levelized commissions are not a new concept and date back several decades. She noted that a 2010 U.S. Securities and Exchange Commission (SEC) complaint against another carrier identified levelized commissions as a common practice in the industry. She said Guggenheim is not aware that the accounting treatment was determined not to be in accordance with statutory accounting principles; and 2) traditional commissions such as those tied to policy persistency are carved out of the proposals. Ms. Nettleton said Guggenheim believes it is a dangerous precedent to remove persistency as a factor in the accrual of commissions as it is a key insurance element. Mr. Bruggeman noted that similar comments as Ms. Nettleton's were made at the Working Group. He stated that the Working Group did hear the comments but did not agree with them.
- g. Thomas Considine (National Council of Insurance Legislators—NCOIL) stated that NCOIL members feel strongly that the revisions are substantive but are willing to put that aside and do not feel the need to debate that classification again at this time. He stated that this is a practice that has been going on for decades. He stated that to implement this change during a period of great economic turmoil seems not only short-sighted, but also it is dangerous to require entities to make such a change in a period of a year. He stated that NCOIL recommends a significant phase-in period with a proposed effective date of December 31, 2025. He stated that a permitted practice does not reflect positively on the state granting the practice or the reporting entity receiving the practice. He stated that accreditation reviews note the permitted practices granted by a jurisdiction. He stated that the most fair and equitable solution and a way to avoid the debate of change classification is to add a four- or five-year phase-in.
- h. Mr. Bruggeman stated that funding agreements to levelized commission costs are not prohibited. He said the issue is that the full liability for the funding agreement must be recognized for the inherent loan. In other words, it is a financing arrangement; it does not delay the timing of recognition of the acquisition costs. He stated that a permitted practice may not have a positive perception. However, permitted practice disclosure requirements allow state insurance regulators to understand the surplus impact of the arrangement. He stated that a permitted practice provides transparency and noted that if there were any decisions to extend the effective date beyond December 31, 2021, there would need to be a disclosure of the impact. Ms. Walker (TX) agreed, noting that consistency, meaning the ability to compare reporting entities' financial positions, is a fundamental concept that statutory accounting is based on. She noted its importance for solvency regulation.
- i. Mr. Considine noted that to address Mr. Bruggeman's point about state insurance regulators' information needs, he is confident that if there were a four- or five-year phase-

in, legislators would be supportive of a reasonably tailored data call. Mr. Rehagen (MO) asked if Mr. Considine envisioned a confidential data call or one that would be publicly produced. Mr. Considine indicated he assumed if it were for the state insurance regulators, then such a data call would be confidential. However, he said NCOIL would be open to discussion. Mr. Bruggeman stated his intent was for a disclosure to be part of the public statutory accounting filing.

- j. Mr. Stolte stated that the Task Force is discussing noncompliant statutory accounting by a handful of companies. He stated that in 1991, Virginia had an insurance receivership of a large life insurance company that had a deferred commission funding arrangement. He said that the insurer had not booked the liability, but when the company was put into receivership, the funding entity/financier filed with the receivership a request for payment of \$16 million. He said that the reporting entity prior to the receivership was reporting \$120 million in surplus, but true surplus ended up being approximately \$4 million. He said he disagreed with the statement that what the handful of companies are doing is an acceptable SAP practice. He said it is noncompliance with statutory accounting in SSAP No. 71, and also with the statutory accounting guidance that existed even prior to codification. He said from a level playing field perspective, he does not want to be forced to approve such agreements for his companies to be able to compete with reporting entities employing this practice. He stated that not recording the full liability for the funding agreements creates illusory surplus. He stated that if a reporting entity needs more time to implement the revisions, a permitted practice is what should be employed. He noted that he received notification of more than 100 permitted practices in an average year. He stated that the permitted practices are designed to provide transparent disclosure for all state insurance regulators.
- k. Mr. Considine stated that what Mr. Stolte is terming “noncompliance” has been accepted in the regulatory community for 20 years. He said if reporting entities have been doing so for 20 years, it seems unreasonable to require a change in one year. Mr. Stole said that in Virginia, they have not accepted such practices. He noted that there may be some that they were unaware of, but they do not view it as an acceptable practice. He stated that this has been noted as problematic in a formal examination report, and he respectfully disagrees with Mr. Considine’s statement that it was an acceptable practice. Ms. Walker also noted that she has been a Texas state insurance regulator for 20 years and is not aware of any entities that are using funding agreements to defer the recognition of acquisition costs. She noted that she would also take exception to doing so if it were identified in an examination or other regulatory review.
- l. Mr. Bridgeland (Center for Insurance Research—CIR) stated support for the proposal as adopted by the Working Group. He stated that one of the top priorities for state insurance regulators was ensuring that the insurers are solvent. He stated that part of that is also ensuring that there is a level playing field. He stated that in this case, there are a handful of companies using a technique that, by their own admission, is enhancing surplus. He noted that as a consumer advocate, he does not want to see insurers have illusory surplus.

53. On April 13, 2021, the Financial Condition (E) Committee, adopted the revisions with 11 in favor and the three states of Mississippi, New Mexico, and South Carolina dissenting. The following key comments were part of the discussion:

- a. Commissioner White stated that the last item on the agenda is an issue that has received a considerable amount of discussion within the Statutory Accounting Principles (E) Working Group over the last couple years. He stated that unlike the premium refund issue from 2020,

where the Committee overturned the adoption of a position and suggested that the issue be redrafted, he does not believe that should occur for this particular issue. He stated that the reason for this was that it was his understanding that the vast majority of the life insurance industry is very much opposed to the practice that has apparently been used by what we think is a handful of companies. The reason being is they believe it gives those handful of companies an unfair competitive advantage over the rest of the industry that has been abiding by Statement of Statutory Accounting Principles (SSAP) No. 71—*Policy Acquisition Costs and Commissions* ever since its inception, as well as even dating back before at least the 1990s. He suggested that if the Committee does not adopt this item, his understanding is that it would force the Working Group to change the entire SSAP No. 71 to allow all commissions and related acquisition costs to be deferred and amortized over time. The reason this would be required is that is essentially what the handful of companies are doing today, while the rest of the industry expenses these costs at the inception of the contract in accordance with statutory accounting principles (SAP). Commissioner White summarized that this would require the Working Group to go back and basically adopt U.S. Generally Accepted Accounting Principles (GAAP) for this particular issue, even though this is one of the biggest differences between SAP and U.S. GAAP. He noted that even if the Committee adopts the issue, it still needs to be adopted by the Executive (EX) Committee and Plenary. He also noted that he already recommended that the Executive (EX) Committee and Plenary consider taking it up either at the Summer National Meeting or during an interim call of the Executive (EX) Committee and Plenary.

- b. Ms. Walker noted that included in the materials is a document that provides an overview of the leveled commission agenda item 2019-24 from the Working Group, which modifies SSAP No. 71 through a clarification. She discussed how the Working Group began discussion on the issue in August 2019, and on March 15, 2021, the Working Group adopted nonsubstantive revisions illustrated at the end of the attachment, with an effective date of December 31, 2021. The Working Group vote was 13 states in favor and one state opposed. On March 23, 2021, the Accounting Practices and Procedures (E) Task Force adopted the Working Group's revisions without modification. The vote was 41 members in favor and two opposed (Louisiana and Oklahoma).
- c. Ms. Walker discussed that although U.S. GAAP and SAP calculate acquisition costs in a similar manner, one major financial reporting difference between the two is that U.S. GAAP capitalizes acquisition costs and expenses them over time to match revenues and expenses while SAP expenses policy acquisitions costs as incurred. This accounting treatment is in line with the SAP Statement of Concepts, particularly the recognition concept. This concept specifically identifies that accounting treatments that defer expense recognition are not generally acceptable under SAP.
- d. Ms. Walker noted that this agenda item was initiated because some reporting entities are using third parties to pay their sales commission costs without recognizing the full liability to repay the third parties, as required under SSAP No. 71. These entities have taken the position that their agreements are not funding agreements, as they pass on lapse risk to the third party. Ms. Walker discussed how the Working Group has noted that the revisions clarify the long-standing principles in SSAP No. 71, which have existed since even prior to codification. The nonsubstantive revisions emphasize the original principles that require full liability recognition for the commission paid on an insurer's behalf and any interest and fees incurred to date. Ms. Walker described how the Working Group noted that it is not permissible to pass insurance lapse risk to a non-insurance entity. Furthermore, as the commission is owed with the issuance of an insurance contract, the proper recognition shall continue to require recognition at the time the insurance contract is issued. Ms. Walker

indicated that the Working Group confirmed that it is not permissible to utilize a third-party payer of sales commission as a means to defer recognition of commission expenses.

- e. Ms. Walker described how if the agenda item is adopted, a small number of companies will have a material financial impact. She emphasized that because of the unfair competitive advantages that are perceived, and as the guidance is in line with the original intent of SSAP No. 71, the Working Group did not adopt grandfathering or transition provisions. She discussed how the Working Group has recommended that affected companies speak to their domiciliary states regarding potential permitted practices, as needed, for phasing in the financial impact. This approach was favored because the impact to the affected companies may vary, and it provides disclosure in Note 1 to ensure the comparability of all insurers with SAP. Ms. Walker noted that it is her understanding that most companies are not employing this practice and will not be affected by the agenda item's adoption.
- f. Superintendent Toal (NM) suggested that the Committee should consider modifying the effective date from the current proposed year-end 2021 to year-end 2022. Ms. Walker stated that the Working Group had already delayed the effective date from its usual practice of effective upon adoption for nonsubstantive items such as this, but the Working Group wanted to allow time for domestic states to work with any of their companies affected. She also described how a further delay was considered, but since the vast majority of the industry is complying, such a suggestion was rejected by the Working Group. Superintendent Toal questioned whether having less than six months allows enough time for companies to make the changes necessary. Commissioner Donelon repeated a comment that he indicated he has made in the past, which was that even though this was not a substantive change, the real-world impact to some companies was to the tune of hundreds of millions of dollars; therefore, grandfathering of the old contracts, perhaps on a phased-in approach, should be allowed. He described that he had been directed to some communication from the U.S. Securities and Exchange Commission (SEC) where this practice was identified as far back as 30 years ago. He described how such companies therefore may have been using this practice in good faith, or at least one they believed was appropriate, and they are being asked to record hundreds of millions of changes in surplus from this practice. He stated that for this reason, he and other commissioners have interceded in this process. Mr. Slape (TX) stated that the reference to SEC action may not be accurate, as he believes the facts indicate that the company was in worse financial condition after entering into these transactions. In essence, these companies are borrowing money, paying interest on that borrowed money, then competing against other companies that are following the current accounting requirements. Mr. Slape noted that this is not a new issue; this is the first thing that a state insurance regulator learns about regarding the differences between SAP and U.S. GAAP.
- g. Commissioner White indicated that everything he has been told is that this may have been taking place within a handful of companies, but that does not mean the state insurance regulators of those companies were aware of its existence in those companies. He described how this is not readable or identified in the financial statements since it is an unrecorded liability. He described how expensing these costs as incurred has been a bedrock principle within statutory accounting for years, even before SSAP No. 71 was adopted in 2001. He noted that he understands the argument for phasing in the impact, given that it could be material for some companies; however, the other side of that is the argument about the level playing field. He emphasized what Ms. Walker said earlier about affected companies working with their domestic regulator about a permitted practice, which is disclosed in Note 1 of the financial statements. Commissioner Donelon stated that he believes from his experience as a commissioner for so many years that the term "permitted practice" certainly

comes with a negative connotation. He stated that for the companies he has heard from, the affected companies are unwilling to pursue a permitted practice. However, he stated his appreciation for the time that the Committee and its subsidiary task forces and working groups have given to this issue.

- h. Mr. Galbraith (AR) asked if it is possible to determine definitively if there were just a handful of companies and also whether the practice will definitively cease with all companies going forward on the same level playing field if the proposed changes are adopted. Commissioner White stated that he has heard no evidence to the contrary that it was anything more than a handful of companies since he believes state insurance regulators would have heard from those companies that are affected, and he noted that he is aware of companies in only three states where this is an issue. He described how this is a difficult practice to identify since it is not recorded in the financial statements. He also stated that with the significant discussion, the industry appears to be very aware of the issue, and the vast majority of the industry is supportive of the clarification to have a level playing field.
- i. Commissioner Mulready stated his support for the comments made by Commissioner Donelon, noting that his concerns have never been about the issue but rather the implementation. He stated his understanding that grandfathering may be difficult, but a delayed effective date, as suggested by Superintendent Toal, should be considered. Commissioner White responded that he believes that point was debated at the Working Group and the Accounting Practices and Procedures (E) Task Force. Commissioner Mulready noted that as a result of these discussions, Oklahoma had sent communication to all of its domestics to determine if other insurers are affected, and he suggested that he is sure other states are likely doing the same thing. Commissioner White stated his support for that practice, noting that it allows the domestic regulator to determine what is best for any affected companies. Wayne Goodwin, former North Carolina Insurance Commissioner, stated that he had previously submitted comments on this issue, noting slippery slope concerns with what could happen if it is implemented as quickly as is suggested since those concerns affect consumers. He stated his support for comments from Commissioner Donelon, Commissioner Mulready and Mr. Galbraith, and he noted concern about the potential impact on smaller carriers.
- j. Superintendent Toal stated that he wants to be clear in the idea of moving to a level playing field, and he is not objecting to the policy, rather his objection was with the limited time to implement, particularly given that state insurance regulators do not know the number of companies affected. Commissioner White responded that his deputy refers to the issue that arises from this practice as illusory surplus, and if in fact there are millions in unrecorded liabilities, that indicates information should be available to solvency regulators and indicates a level of concern. Ms. Walker stated that she believes this is a consumer protection issue, and her highest responsibility is ensuring that carriers can pay policyholder claims as they come due. She stated that when she hears some of the concerns that are being stated, as the domiciliary regulator, she needs the companies to come speak to her so that the two can work out a practice that takes care of consumers while considering the concerns of the company. She stated that the Accounting Practices and Procedures Task Force is trying to adopt some disclosures to gather information on companies, but that depends upon accurate completion by the company, something that may not occur given this particular accounting practice of expensing commissions as they are incurred, which is a fundamental bedrock of statutory accounting that differs from other standards. She noted that there was discussion of trying to obtain more data on the companies using this practice, but the companies did not come forward to their state insurance regulator even though that was requested. So, while a complete scope is not known, the Working Group

and the Task Force did not receive information from state insurance regulators that are on the Task Force or follow it. Ms. Walker also noted that the current proposed effective date of year-end 2021 is already a delay. Mr. Slape suggested that if this is going to have hundreds of millions of impacts on a handful of companies, that is illusory surplus, and that raises questions about the solvency of such insurers using this practice. Therefore, it could have an impact on this small number of companies.

- k. Ms. Kelley (Delaware Life Insurance Company), on behalf of interested parties, stated that this is an issue that has been discussed for some time, and she appreciates the ongoing discussions of the Committee and NAIC staff that have worked with Delaware Life. She strongly advocated for additional time to work through this implementation because Delaware Life still believes there are unanswered questions with regard to the calculations. She stated that Delaware Life has advocated all along for an extended effective date. She stated that Delaware Life maintains that this is a substantive change and believes that it has applied SSAP No. 71 in good faith, with all prior financial statements subject to examination and audit. Mr. Corbett (Guggenheim Life and Annuity Company) stated that the accounting for levelized commissions has been presented as a solvency issue, whereby companies have unrecorded liabilities for future commission payments. If this is the case, the liability is deemed necessary for policyholder protection, so how would the Committee be comfortable with any persistency commissions being recorded over time when all insurers have policy experience to be used as a basis for estimating the liability for these future expected commission payments. Therefore, the obligating event, which is defined by one of three essential characteristics in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, has not occurred until the policy anniversary date. Mr. Corbett noted that paragraph 2 of SSAP No. 71, which contains no proposed modifications to the definition of a liability, determine when that liability has been incurred. The proposed changes to levelized commissions with a link to persistency are contradictory to paragraph 2. Commissions that are paid and earned according to persistency, which is a long-standing insurance element, should be treated in a consistent manner to ensure comparability among reporting entities. Guggenheim believes the proposed changes to SSAP No. 71 sets a dangerous precedence for the need to accrue for other liabilities for other predictable future expenses. Ms. Walker noted that the expense is incurred for the first year when the policy is written. So, even if the funding agreement allows the company to pay the sales agent in the future, that does not allow the company to defer expenses the first year of the policy. She stated that by deferring, and not recording the liability, and making the statement that it is not due until after the period is contrary and has a different assumption. The assumption that one does not have to book the liability until the policy is still in effect ignores the fact that the policy is currently in effect. As long as the policy is in effect, that amount will be owed. Therefore, you are not to adjust the liability down until the policy lapses or is cancelled. Using a funding agreement simply changes the timing of when the payment is due and does not affect if there should be an expense. Mr. Slape said these are not persistency commissions because in those situations the agent is paid a commission in future years for when that policy stays in force. These are referred to as renewal commissions, and they are reported on the future anniversary date, but the first-year commission must be expensed immediately up front regardless of the existence of a funding agreement since that is a loan. Mr. Slape stated that he takes issue with the statement that these funding agreements provide for a persistency commission.
- l. Roger Sevigny (Sevigny Consulting), as a former state insurance regulator, stated that what he keeps hearing is a lack of information, and he asked that the work be slowed down. Commissioner Donelon stated that with respect to the companies referred to, they are owned by wealthy owners and some of the largest insurers in the world. Commissioner



White stated that the debate has been vigorous, and he reminded everyone that even if the Committee votes to adopt the proposal, it will still need to be considered by the Executive (EX) Committee and Plenary. at the Summer National Meeting or during an interim meeting before that date.

54. The revisions were adopted by the Executive (EX) Committee and Plenary on August 17, 2021, with 10 jurisdictions voting as opposed. The discussion primarily centered around whether to allow a one-year deferral of the effective date to December 31, 2022. The December 31, 2021, effective date was maintained.

## **RELEVANT STATUTORY ACCOUNTING**

55. Existing guidance in *SSAP No. 71—Policy Acquisition Costs and Commissions*.

3. Contingent commission liabilities shall be determined in accordance with the terms of each individual commission agreement. Commission liabilities determined on the basis of a formula that relates to loss experience shall be established for the earned portion. Assumptions used to calculate the contingent commission liability shall be consistent with the terms of the policy contract and with the assumptions made in recording other assets and liabilities necessary to reflect underwriting results of the reporting entity such as retrospective premium adjustments and loss reserves, including incurred but not reported.

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

5. The use of an arrangement where commission payments are not linked to traditional elements such as premium payments and policy persistency, but rather are linked to the repayment of an advance amount 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.

## **Effective Date**

56. As issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble), the subsequent consideration and adoption of this issue paper will not have any impact of the December 31, 2021, effective date of the nonsubstantive revisions adopted to SSAP No. 71 by the Working Group on March 15, 2021.

## **EXHIBIT A – NONSUBSTANTIVE REVISIONS TO SSAP NO. 71—POLICY ACQUISITION COSTS AND COMMISSIONS**

### **Statement of Statutory Accounting Principles No. 71**

#### **Policy Acquisition Costs and Commissions**

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##### **SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles for policy acquisition costs and commissions.

##### **SUMMARY CONCLUSION**

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

3. Contingent commission liabilities shall be determined in accordance with the terms of each individual commission agreement. Commission liabilities determined on the basis of a formula that relates to loss experience shall be established for the earned portion. Assumptions used to calculate the contingent commission liability shall be consistent with the terms of the policy contract and with the assumptions made in recording other assets and liabilities necessary to reflect underwriting results of the reporting entity such as retrospective premium adjustments and loss reserves, including incurred but not reported.

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

5. The use of an arrangement such as a levelized commission arrangement where commission payments are not linked to traditional elements such as premium payments and policy persistency, but rather are linked to the repayment of an advance amount paid by a third party to the direct selling agents requires the establishment of a liability by the reporting entity for the full amount of the unpaid principal and accrued interest which is payable to a third party related to levelized commissions. Arrangements that use a third party to pay agents who write policies for the reporting entity and the insured can be an attempt to de-link the relationship between the insurer and those agents and defer or levelize the acquisition commissions. The insurance reporting entity is required to recognize the full amount of earned commission costs to the direct policy writing agents even if those costs are paid indirectly to the agents by a third party through the use of levelized commission, or similar arrangement, which is in substance a funding arrangement. Having a third party pay commission costs to the selling agent is strong evidence of a potential funding arrangement

which shall be recognized as a liability because the substance of the arrangement indicates that repayment is reasonable and probable, even if a contingency has been incorporated into the funding arrangement, until the underlying policy has been cancelled. A third-party structure cannot recharacterize (e.g., by referencing policy persistency) and delay recognition of liabilities for initial sales commission owed from the writing of policies regardless of how a third-party arrangement is structured with regards to the timing of payment from the insurer. The amount owed for full initial sales commission shall be recognized immediately as the writing of an insurance contract is the event that obligates the insurer, and such action shall occur consistently among insurers. As such, this recognition is required regardless of if the insurer owes a selling agent directly or if a third-party has been contracted to provide payment to the selling agent.

## **Relevant Literature**

6. This statement rejects *ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts*, *ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, *FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises*, *FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, and *Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts*.

## **Effective Date and Transition**

7. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. The nonsubstantive revisions adopted March 15, 2021, regarding levelized commission are to clarify the original intent of this statement and apply to existing contracts in effect as of December 31, 2021, and new contracts thereafter.

## **REFERENCES**

### **Relevant Issue Papers**

- *Issue Paper No. 71—Policy Acquisition Costs and Commissions*
- *Issue Paper No. 165—Levelized Commission*

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att OneF\\_IP No. 165\\_Levelized Commission.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att OneF_IP No. 165_Levelized Commission.docx)

## Interpretation of the Statutory Accounting Principles (E) Working Group

### INT 20-10: Reporting Nonconforming Credit Tenant Loans

#### **[GUIDANCE DETERMINED TO BE NO LONGER RELEVANT](#)**

#### **INT 20-10 Dates Discussed**

November 18, 2020; December 18, 2020; December 28, 2020; [December 11, 2021](#)

#### **INT 20-04 References**

*SSAP No. 43R—Loan-Backed and Structured Securities*

*NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the Investment Analysis Office*

#### **INT 20-10 Issue**

1. During the Statutory Accounting Principles (E) Working Group meeting on November 12, 2020, the Working Group discussed and deferred final decision on inconsistencies in the reporting of “nonconforming” credit tenant loans (CTLs) currently reported on Schedule D-1 and directed reporting exceptions for year-end 2020. Due to subsequent questions, this interpretation has been issued to detail the provisions provided and clarify the reporting of CTLs in the year-end 2020 statutory financial statements.

#### **INT 20-10 Discussion**

2. As detailed in agenda item 2020-24, some reporting entities have reported CTLs that do not qualify as “conforming” CTLs per the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) on Schedule D-1: Long-Term Bonds. CTLs that do not qualify under the P&P Manual structural requirements are noted as “nonconforming” CTLs. During the November 12 discussion, the Working Group deferred final guidance on the reporting of nonconforming CTLs. This deferral was supported as the Working Group has a separate project to assess investments that are captured on Schedule D-1. With this project, it was identified that it would be undesirable to require an investment that is currently being reported on Schedule D-1 to be moved to a different schedule if there was potential for that investment to subsequently qualify for Schedule D-1.

3. Although the Working Group deferred final conclusion on the reporting of nonconforming CTLs, it was identified that the long-standing guidance detailed in the P&P Manual only permits CTLs that met certain structural criteria, which is verified by the SVO, to be reported on Schedule D-1. Under this existing guidance, these conforming CTLs are also prohibited from using CRP ratings in determining NAIC designation but are required to utilize SVO-assigned NAIC designations obtained after the SVO verifies compliance with the structural elements. As such, to ensure that nonconforming CTLs are not provided more favorable provisions than conforming CTLs that meet structural requirements, the Working Group confirmed that only CTLs that are filed with the NAIC SVO by February 15, 2021, shall be reported on Schedule D-1. Key aspects noted in this direction:

- a. This direction is a limited-time exception to the *NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the Investment Analysis Office* and shall not be inferred to other investments. Pursuant to the noted Policy Statement, obtaining an NAIC designation does not change an investment’s applicable SSAP, annual or quarterly statement reporting schedule, or override other SSAP guidance required

for the investment to be an admitted asset. Although nonconforming CTLs will be permitted to be reported on Schedule D-1 when filed with the SVO for future receipt of an SVO-assigned NAIC designation (even without meeting structural requirements), this is strictly a limited-time exception to prevent reporting schedule changes while a larger project on the scope of Schedule D-1 is considered.

- b. The requirement to file the nonconforming CTL for an SVO-assigned NAIC designation for Schedule D-1 applies to all investments that represent credit tenant loans. It is not permissible for a reporting entity to classify an investment, which meets the characteristics of a credit tenant loan, as a different type of investment (for example, as a form of leased-backed security) for purposes of reporting the investment on Schedule D-1 without filing for an SVO-assigned NAIC designation.
- c. The Working Group direction intends to only address nonconforming CTLs that have previously been reported on Schedule D-1 although they did not comply with the requirements of the P&P Manual. This direction is not intended to require, or permit, nonconforming CTLs that have been previously reported as mortgage loans (on Schedule B – Mortgage Loans) or as other invested assets (on Schedule BA – Other Long-Term Invested Assets) to be moved to a different reporting schedule. Nonconforming CTLs that have previously been reported on Schedule B or BA shall remain on that reporting schedule for the duration of this INT.

#### **INT 20-10 Consensus**

4. The Working Group reached a consensus to provide a limited time exception allowing nonconforming CTLs to continue to be reported on Schedule D-1 for year-end 2020 provided they have filed for an SVO-assigned NAIC designation. With the issuance of this interpretation, the Working Group confirmed the provisions and limitations detailed in paragraph 3, and summarized the resulting provisions below:

- a. CTLs that qualify per the provisions of the P&P Manual are considered to be “conforming” CTLs and shall be reported on Schedule D-1 with the NAIC designation obtained from the SVO.
- b. CTLs that do not qualify per the provisions of the P&P Manual to be “conforming” CTLs shall follow the accounting and reporting provisions detailed in the following subparagraphs. These CTLs are noted as “nonconforming CTLs.”
  - i. Nonconforming CTLs that have previously been reported on Schedule D-1 may continue to be reported on Schedule D-1 for year-end 2020 if they have filed for an SVO-assigned NAIC designation. This provision only requires that an entity file the security with the SVO by February 15, 2021, not that the entity receive the SVO-assigned designation prior to submitting their 2020 annual statutory financial statements. If an entity does not file the security with the SVO by February 15, 2021, the investment shall be reported on Schedule BA. If reporting on Schedule BA, these CTLs shall not be reported with a credit-rating provider (CRP) determined NAIC designation. For nonconforming CTLs that have been filed with the SVO and retained on Schedule D-1, the reporting entity is required to disclose the total amount of nonconforming CTLs reported on Schedule D-1 on Note 1 as if it were a permitted practice. The reporting entity shall complete the permitted practice disclosures required by *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, with two separate entries that detail the nonconforming CTLs that were reported on D-1 on one line, and the nonconforming CTLs that were not reported on Schedule BA on a separate line within this disclosure. (These lines will likely net to a zero impact to statutory surplus; therefore, the separate line reporting is required.)

- ii. Nonconforming CTLs that have been previously reported on a different reporting schedule (e.g., Schedule B or Schedule BA) shall remain on the prior reporting schedule. There is no requirement for reporting entities to pursue SVO-assigned designations for these CTLs or disclose these nonconforming CTLs in Note 1. Furthermore, reporting entities that have previously reported nonconforming CTLs on Schedule D-1 that do not want to file with the SVO or that do not want to disclose in Note 1 pursuant to paragraph 4.b.i. are permitted to reclassify these CTLs to Schedule B or Schedule BA without NAIC designations.

5. The exceptions granted in this interpretation are applicable for the year-end 2020 statutory financial statement only. Nonconforming CTLs that have been filed with the SVO and are reported on Schedule D-1 shall continue the Note 1 reporting for each 2021 quarterly financial statement until an SVO-assigned designation is received. The provisions within this INT, and the ability to continue reporting nonconforming CTLs on Schedule D-1 with an SVO-assigned NAIC designation, are limited time exceptions that extend only to October 1, 2021. The exceptions provided in this INT shall not be interpreted to indicate the likely conclusion of the Working Group in determining the appropriate reporting schedule for nonconforming CTLs. All reporting entities shall be prepared to make adjustments to comply with the reporting schedule utilized for nonconforming CTLs upon final conclusion by the Working Group.

#### **INT 20-10 Status**

6. On November 18, 2020, the Statutory Accounting Principles (E) Working Group exposed this interpretation to provide a limited-time exception on the reporting of nonconforming CTLs. On December 18, 2020, the Working Group exposed revisions to this interpretation to allow continued D-1 reporting of nonconforming CTLs if they are filed with the SVO by February 15, 2021. With this provision, nonconforming CTLs reported on Schedule D-1 that have not received an SVO-assigned designation shall be disclosed in Note 1 as if a permitted practice. On December 28, 2020, the Working Group finalized action, via evote, to adopt the interpretation exposed December 18, 2020.

7. On December 11, 2021, the Statutory Accounting Principles (E) Working Group explicitly nullified this interpretation due to actions taken in July 2021 by the Valuation of Securities (E) Task Force, which amended the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual)* to define that credit tenant loans are specific to mortgage loans in scope of SSAP No. 37—*Mortgage Loans*. In addition, the edits to the P&P Manual clarify that security structures shall be assessed for accounting and reporting guidance in accordance with the provisions in SSAP No. 26R—*Bonds* and SSAP No. 43R—*Loan-Backed and Structured Securities*, thus the reporting exceptions provided in this INT were no longer required. The action to nullify occurred subsequent to the expiration date, but was done explicitly for historical documentation purposes.

~~7~~8. No further discussion is planned.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-G\\_INT 20-10\\_CTLs\\_tracked.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-G_INT 20-10_CTLs_tracked.docx)

**Statutory Accounting Principles (E) Working Group  
Maintenance Agenda Submission Form  
Form A**

**Issue:** SSAP No. 43R – Credit Tenant Loans - Scope

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** On July 15, 2021, the Valuation of Securities (E) Task Force adopted revisions to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to clarify that the definition of a credit tenant loan (CTL), which defines CTLs as mortgage loans, is specific to “mortgage loans in scope of SSAP No. 37.” This limited amendment to the P&P Manual was suggested by the chair and vice chair of the Statutory Accounting Principles (E) Working Group to clarify that the application of the structural assessment to identify CTLs is limited to direct mortgage loans and relates to the potential reclassification of investments from Schedule B (Mortgage Loans) to Schedule D (Bonds) for qualifying investments. The amendment also clarifies that security structures, which are excluded from SSAP No. 37, are not subject to the P&P Manual CTL structural assessments and should be captured for accounting and reporting in accordance with the applicable SSAP within the *NAIC Accounting Practices and Procedures Manual*. With this Task Force discussion, it was highlighted that there is a current Working Group project to define principal concepts for bond reporting.

With the adoption of the Task Force guidance, NAIC staff has assessed whether *INT 20-10: Reporting Nonconforming CTLs* should be nullified and whether other revisions should be incorporated into SSAP No. 43R prior to the adoption of guidance in advance of the principle-based bond proposal project.

**Review of INT 20-10:**

INT 20-10 was adopted Dec. 28, 2020, to provide reporting exceptions for year-end 2020. This interpretation permitted continued reporting on Schedule D for nonconforming CTLs (and other structures which met the characteristics of a CTL) if they had been filed for an SVO-assigned designation by Feb. 15, 2021. Although an SVO-assigned designation was not required to be received before filing the statutory financial statements, reporting entities were required to disclose the nonconforming CTLs captured on Schedule D with a CRP rating in Note 1. Once the SVO-assigned designation was received, then the reporting entity would begin reporting the SVO-assigned designation (instead of the CRP rating) and the Note 1 disclosure would no longer be required. This interpretation also clarified that there would be no requirement to move investments to Schedule D (and file them with the SVO) if they had previously been reported on a different schedule (such as Schedule B or Schedule BA). This interpretation was set to expire Oct. 1, 2021. This limited effective date was set to allow for further review and consideration of these structures prior to year-end 2021 reporting.

**Assessment of INT 20-10:**

With the adoption of the Task Force edits, which clarify that security structures shall be assessed for accounting and reporting in accordance with the provisions in SSAP No. 26R and SSAP No. 43R, NAIC staff does not believe there is a need to retain INT 20-10 as the reporting exception provided within would no longer be necessary for security structures. (The identification of nonconforming CTLs as of year-end 2020 solely encompassed security structures with underlying real estate risk and did not include any direct mortgage loans that had been reclassified from Schedule B to Schedule D without meeting the SVO structural analysis.) With the nullification of INT 20-10 and Task Force clarifications, only direct mortgage loans would be assessed for reclassification from mortgage

loans to bonds under the CTL structural provisions. With the limited focus on these specific structures, there is no perceived need to reconsider the current structural provisions that need to be met (namely the 5% residual risk threshold) for those investments to be reclassified from mortgage loans to bonds. With the nullification of INT 20-10, the following guidance would be applicable:

- Mortgage loans in scope of SSAP No. 37 will continue past practice, with reporting entities having the ability to file the structures with the SVO for a structural assessment to determine whether the mortgage loan can be reclassified from Schedule B to Schedule D as a CTL.
- Security structures that have underlying real estate risk, whether they are referred to as CTLs or by another named (e.g., lease-backed securities) that qualify in scope of *SSAP No. 26R—Bonds* or *SSAP No. 43R—Loan-Backed and Structured Securities* shall follow the accounting and reporting provisions of those SSAPs. Investments that qualify within these SSAPs are reported on Schedule D-1: Long-Term Bonds. This is consistent with past intent of the SSAPs as the highest level of the statutory hierarchy (pursuant to Section V – Statutory Hierarchy of the Preamble to the AP&P Manual) as well as guidance in the *NAIC Policy Statement on Coordination of the AP&P Manual and the P&P Manual*. Per that guidance, obtaining an NAIC designation does not change in investment’s applicable SSAP, annual or quarterly statement reporting schedule or override other SSAP guidance required for an investment to be an admitted asset. That guidance identifies that there are limited instances in which a SSAP specifically identifies within its scope, the inclusion of specific SVO-Identified investments based on structural assessments (such as SVO-Identified Bond ETFs in scope of SSAP No. 26R). However, that guidance is specific to the inclusion of qualifying investments into the scope of a specific SSAP and does not provide the ability to remove investments from a specific SSAP that qualify under the SSAP’s scope provisions.

#### **Assessment of SSAP No. 43R:**

NAIC staff has recognized that the scope guidance of SSAP No. 43R does not name mortgage loans that qualify as CTLs after an SVO structural assessment. Furthermore, it has been identified that there are examples of securities in paragraph 27.b that have been cited as structures that are in scope of SSAP No. 43R. Paragraph 27 is not a scope paragraph but is in the section of the SSAP that addresses determination of the designation based on whether the investment is subject to the financial modeling guidance. (The original source of these examples were in a paragraph that identified investments that would not be financially modeled or that did not receive CRP ratings subject to the “modified filing exempt” provisions. Since the “MFE” concept was removed in 2020, SSAP No. 43 investments are either financially modeled or captured as an “all other loan-backed or structured security.”) With the removal of the MFE guidance, paragraph 27.b is now applicable to all securities not subject to financial modeling, but these examples are still included. (*Note: NAIC staff has an impression that there could be industry concern with removing these examples as it will cause questions on whether they can be reported in scope of SSAP No. 43R.*)

Although there is current “bond project” to establish principal concepts in determining whether an investment qualifies as a bond, the finalization and implementation of that project is expected to take time to complete. To address immediate issues with regards to clarifying the reporting of mortgage loan CTLs and other securities, NAIC staff proposes nonsubstantive revisions to remove the examples from paragraph 27.b and explicitly incorporate applicable provisions in the scope paragraphs of SSAP No. 43R.

#### **Existing Authoritative Literature:**

1. This statement establishes statutory accounting principles for investments in loan-backed securities, structured securities and mortgage-referenced securities. In accordance with *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, retained beneficial interests from the sale of loan-backed securities and structured securities are accounted for in accordance with this statement. Items captured in scope of this statement are collectively referred to as loan-backed securities.



## Designation Guidance

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

- a. Financial Modeling: Pursuant to the P&P Manual, the NAIC identifies select securities where financial modeling must be used to determine the NAIC designation. NAIC designation based on financial modeling incorporates the insurers' carrying value for the security. For those securities that are financially modeled, the insurer must use NAIC CUSIP specific modeled breakpoints provided by the modelers in determining initial and final designation for these identified securities. As specified in the P&P Manual, securities where modeling results in zero expected loss in all scenarios and that would be equivalent to an NAIC designation and NAIC designation category of NAIC 1 and NAIC 1.A. respectively, if the filing exemption process in the P&P Manual was applied, are automatically considered to have a final NAIC designation of NAIC 1 and NAIC designation category of NAIC 1.A., regardless of the carrying value. The three-step process for modeled securities is as follows:
  - i. Step 1: Determine Initial Designation – The current amortized cost (divided by remaining par amount) of a loan-backed or structured security is compared to the modeled breakpoint values assigned to the six (6) NAIC designations for each CUSIP to establish the **initial** NAIC designation.
  - ii. Step 2: Determine Carrying Value Method – The carrying value method, either the amortized cost method or the lower of amortized cost or fair value method, is then determined as described in paragraph 26 based upon the initial NAIC designation from Step 1.
  - iii. Step 3: Determine Final Designation – The final NAIC designation is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 27.a.ii.) to the NAIC CUSIP specific modeled breakpoint values assigned to the six (6) NAIC designations for each CUSIP. The final designation is mapped to an NAIC designation category according to the instructions in the P&P Manual. This final NAIC designation shall be applicable for statutory accounting and reporting purposes and the NAIC designation category will be used for investment schedule reporting and establishing RBC and AVR charges. The final NAIC designation is not used for establishing the appropriate carrying value method in Step 2 (paragraph 27.a.ii.).
- b. All Other Loan-Backed and Structured Securities: For securities not subject to paragraph 27.a. (financial modeling) follow the established designation procedures according to the appropriate section of the P&P Manual. The NAIC designation shall be applicable for statutory accounting and reporting purposes (including determining the carrying value method and establishing the AVR charges). The carrying value method is established as described in paragraph 26. **Examples of these securities include, but are not limited to equipment trust certificates, credit tenant loans (CTL), 5\*/6\* securities, interest only (IO) securities, securities with CRP ratings (excluding RMBS/CMBS), loan-backed and structured securities, and mortgage-referenced securities with SVO assigned NAIC designations.**

**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):** Previous activity was summarized above, in the 'Description of Issue' section. A prior agenda item 2020-24: Accounting and Reporting of Credit Tenant Loans in response to a Task Force referral was also developed

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

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

**Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and take the following action:

- 1) Nullify INT 20-10 as no longer applicable. (If preferred, rather than nullifying immediately, this INT could continue and expire automatically on Oct. 1, 2021, without consideration of further extension.)
- 2) Dispose agenda item 2020-24: Accounting and Reporting of Credit Tenant Loans without statutory revisions. This agenda item had two exposures regarding CTLs prior to the development of INT 20-10 and the SVO adoption that clarified the definition of CTLs.
- 3) Expose revisions to *SSAP No. 43R—Loan-Backed and Structured Securities* to explicitly identify the SVO-Identified CTLs in scope of SSAP No. 43R. These revisions also propose to delete the examples of “other LBSS” in paragraph 27.b If there are concerns that this deletion inadvertently removes any specific investment from the scope of SSAP No. 43R, those comments are requested to be shared during the exposure period.

**It is noted that these modifications are intended to simply clarify current guidance prior to the adoption of bond proposal.**

***Proposed edits to SSAP No. 43R:***

1. This statement establishes statutory accounting principles for investments in loan-backed securities, structured securities and mortgage-referenced securities. In accordance with *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, retained beneficial interests from the sale of loan-backed securities and structured securities are accounted for in accordance with this statement. In addition, mortgage loans in scope of SSAP No. 37 that qualify under a SVO structural assessment are in scope of this statement as credit tenant loans (CTLs). Items captured in scope of this statement are collectively referred to as loan-backed securities

**Designation Guidance**

27. For RMBS/CMBS securities within the scope of this statement, the initial NAIC designation used to determine the carrying value method and the final NAIC designation for reporting purposes is determined using a multi-step process. The P&P Manual provides detailed guidance. A general description of the processes is as follows:
  - a. Financial Modeling: Pursuant to the P&P Manual, the NAIC identifies select securities where financial modeling must be used to determine the NAIC designation. NAIC designation based on financial modeling incorporates the insurers' carrying value for the security. For those securities that are financially modeled, the insurer must use NAIC CUSIP specific modeled breakpoints provided by the modelers in determining initial and final designation for these identified securities. As specified in the P&P Manual, securities where modeling results in zero expected loss in all scenarios and that would be equivalent to an NAIC designation and NAIC designation category of NAIC 1 and NAIC 1.A., respectively, if the filing exemption process in the P&P Manual was applied, are automatically considered to have a final NAIC designation of NAIC 1 and NAIC designation category of NAIC 1.A., regardless of the carrying value. The three-step process for modeled securities is as follows:

- i. Step 1: Determine Initial Designation – The current amortized cost (divided by remaining par amount) of a loan-backed or structured security is compared to the modeled breakpoint values assigned to the six (6) NAIC designations for each CUSIP to establish the **initial** NAIC designation.
  - ii. Step 2: Determine Carrying Value Method – The carrying value method, either the amortized cost method or the lower of amortized cost or fair value method, is then determined as described in paragraph 26 based upon the initial NAIC designation from Step 1.
  - iii. Step 3: Determine Final Designation – The final NAIC designation is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 27.a.ii.) to the NAIC CUSIP specific modeled breakpoint values assigned to the six (6) NAIC designations for each CUSIP. The final designation is mapped to an NAIC designation category according to the instructions in the P&P Manual. This final NAIC designation shall be applicable for statutory accounting and reporting purposes and the NAIC designation category will be used for investment schedule reporting and establishing RBC and AVR charges. The final NAIC designation is not used for establishing the appropriate carrying value method in Step 2 (paragraph 27.a.ii.).
- b. All Other Loan-Backed and Structured Securities: For securities not subject to paragraph 27.a. (financial modeling) follow the established designation procedures according to the appropriate section of the P&P Manual. The NAIC designation shall be applicable for statutory accounting and reporting purposes (including determining the carrying value method and establishing the AVR charges). The carrying value method is established as described in paragraph 26. ~~Examples of these securities include, but are not limited to equipment trust certificates, credit tenant loans (CTL), 5\*/6\* securities, interest only (IO) securities, securities with CRP ratings (excluding RMBS/CMBS), loan-backed and structured securities, and mortgage-referenced securities with SVO assigned NAIC designations.~~

**Staff Review Completed by:** Julie Gann, NAIC Staff – July 2021

**Status:**

On August 26, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed the following:

1. Revisions to *SSAP No. 43R—Loan-Backed and Structured Securities*, as illustrated above, to explicitly identify the SVO-Identified CTLs are in scope of SSAP No. 43R. These revisions also propose to delete the examples of “other loan-backed and structured securities” in paragraph 27.b. Comments are requested if this deletion is perceived to remove investments from the scope of SSAP No. 43R.
2. Request for comment on the Working Group’s intent to nullify INT 20-10. (This INT nullifies automatically on Oct. 1, 2021, but it is anticipated that the explicit nullification will identify the revisions adopted by the VOSTF for historical reference.)
3. Disposal of agenda item 2020-24: Accounting and Reporting of Credit Tenant Loans without statutory revisions. This was the agenda item in response to the initial VOSTF referral and is no longer applicable with the adopted Task Force edits to clarify that CTLs are mortgage loans in scope of SSAP No. 37.

On December 11, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *SSAP No. 43R—Loan-Backed and Structured Securities*, as illustrated above. The revisions 1) identify

that SVO-Identified credit tenant loans are in scope of SSAP No. 43R, and 2) delete various example references of “other loan-backed and structured securities” in paragraph 27.b. In addition, the Working Group nullified *INT 20-10: Reporting Nonconforming CTLs* and disposed agenda item *2020-24: Accounting and Reporting of Credit Tenant Loans* without statutory revisions.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-H\\_21-11\\_SSAP No. 43R\\_CTL\\_2021.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/Fall%202021/TF/App/SAP/Minutes/Att%20One-H_21-11_SSAP%20No.43R_CTL_2021.docx)

**Statutory Accounting Principles (E) Working Group  
Maintenance Agenda Submission Form  
Form A**

**Issue:** SSAP No. 30R – FHLB Disclosure – Blanks Referral

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** *SSAP No. 30R—Unaffiliated Common Stock* directs the accounting and reporting of capital stock held in Federal Home Loan Banks (FHLB). As holding capital stock in a FHLB is a requirement for FHLB borrowing, the disclosure requirement for said borrowings is also detailed in SSAP No. 30R - regardless of if the reporting entity classifies the borrowings as debt pursuant to *SSAP No. 15—Debt and Holding Company Obligations* or as a funding agreement per *SSAP No. 52—Deposit-Type Contracts*. (Note: if the debt is classified as a funding agreement, SSAP No. 52 directs reporting entities to SSAP No. 30 for applicable disclosure requirements).

If the debt is classified as a funding agreement within the scope of SSAP No. 52, its applicable activity is reported in *Exhibit 7 – Deposit-Type Contracts*. However, Exhibit 7 includes columnar reporting of various deposit-type contracts, including guaranteed interest contracts (GIC), annuities certain, supplemental contracts, etc. Due to the varied nature of reporting based on policy forms, FHLB borrowings classified as a deposit-type contract and reported on Exhibit 7 are not readily identifiable to financial statement users. While statutory accounting revisions are not proposed, this agenda item has been drafted to document a referral to the Blanks (E) Working Group regarding the specific identification of FHLB borrowings, which have been classified as funding agreements reported on Exhibit 7.

**Existing Authoritative Literature:** All applicable SSAP No. 30R references for the accounting and reporting of FHLB capital stock as well as the disclosure requirements of FHLB borrowings have been included in this section. Please note that for brevity, applicable footnotes have not been included.

**FHLB Capital Stock**

14. FHLB capital stock is held by reporting entities that are members of an FHLB. Each reporting entity must acquire FHLB capital stock for membership and maintain capital stock holding sufficient to support its business activity (borrowings) in accordance with the respective FHLB's capital plan. The price of FHLB capital stock cannot fluctuate, and all FHLB capital stock must be purchased, repurchased or transferred at its par value. FHLB capital stock is restricted for redemption in accordance with the FHLB capital plan and shall be coded as restricted within the financial statements (e.g., investment schedules and general interrogatories).

15. Acquisition of FHLB capital stock allows members to conduct business activity (borrowings) from an FHLB. The amount of capital stock acquired determines the reporting entity's eligible borrowing amount. At a minimum, all borrowings from an FHLB (regardless of structure) must also be fully collateralized in accordance with the FHLB capital plan, which determines the amount of collateral required by type of pledged instrument. Collateral pledged to an FHLB shall be coded as restricted within the financial statements (e.g., investments schedules and general interrogatories). Collateral pledged to

an FHLB by a reporting entity FHLB member is considered an admitted asset if all of the conditions in paragraphs 15.a. through 15.d. are met:

- a. The asset would have been admitted under SSAP No. 4;
- b. The pledging insurer continues to receive the income on the pledged collateral;
- c. The pledging insurer can remove and substitute other securities with little or advance notice to the FHLB as long as the insurer complies with related investment quality and market value provisions; and
- d. There has been no uncured default or event to indicate an impairment or loss contingency for the pledged assets.

16. The guidance in paragraph 14 and paragraph 15 is specific for reporting entities that are FHLB members. A reporting entity that engages with an FHLB through an “affiliate arrangement” (meaning an affiliate of the reporting entity is the FHLB member), is not considered an FHLB member. In those situations, any FHLB capital stock held by the non-FHLB member reporting entity or collateral pledged to an FHLB on behalf of an affiliate shall be nonadmitted. Detail of the affiliate FHLB arrangement, including any collateral pledged or funds received, shall be captured as a related party transaction (as if the activity occurred directly with the affiliate) under the provisions of *SSAP No. 25—Affiliates and Other Related Parties*.

## FHLB Disclosures

18. For reporting entity FHLB members, the following information shall be disclosed in the financial statements for current and prior year and between general account and separate account activity. The information in the disclosures shall be presented gross even if a right to offset exists per *SSAP No. 64—Offsetting and Netting of Assets and Liabilities*.

- a. General description of FHLB agreements, with information on the nature of the agreement, type of borrowing (advances, lines of credit, borrowed money, etc.) and use of the funding.
- b. Amount of FHLB capital stock held, in aggregate, and classified as follows: i) membership stock (separated by Class A and Class B); ii) Activity Stock; and iii) Excess Stock. For membership stock, report the amount of FHLB capital stock eligible for redemption and the anticipated timeframe for redemption: i) less than 6 months, ii) 6 months to 1 year, iii) 1 year to 3 years, and iv) 3 to 5 years.
- c. Amount (fair value and carrying value) of collateral pledged to the FHLB as of the reporting date. In addition, report the maximum amount of collateral pledged to the FHLB at any time during the current reporting period. (Maximum shall be determined on the basis of carrying value, but with fair value also reported)
- d. Aggregate amount of borrowings at the reporting date from the FHLB, reflecting compilation of all advances, loans, funding agreements, repurchase agreements, securities lending, etc., outstanding with the FHLB, and classify whether the borrowing is in substance: i) debt (*SSAP No. 15—Debt and Holding Company Obligations*), ii) a funding agreement (*SSAP No. 52—Deposit-Type Contracts*), or iii) Other. For funding agreements, report the total reserves established. Report the maximum amount of aggregate borrowings from an FHLB at any time during the current reporting period, the actual or estimated maximum borrowing capacity as determined by the insurer, with a description of how the borrowing capacity was determined, and whether current borrowings are subject to prepayment penalties.

19. The disclosures in paragraphs 17.c. through 17.f. shall be included in the annual audited statutory financial reports only. The FHLB disclosures in paragraph 18 are required in all interim and annual financial statements regardless if the activity is materially different from the activity reported during the prior reporting period. Refer to the Preamble for further discussion regarding disclosure requirements.

**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):** N/A

**Staff Recommendation:**

NAIC staff recommends that the Working Group forward a proposal to the Blanks (E) Working Group to supplement the identification of FHLB borrowings that are classified as a deposit-type contract and reported on Exhibit 7 - Deposit-Type Contracts. The supplemental data to be captured is consistent with current requirements in *SSAP No. 30R—Unaffiliated Common Stock*, however this improved reporting granularity will significantly assist financial statement users with the ability to identify FHLB borrowings captured in Exhibit 7. The proposed additions to Exhibit 7 are shown below.

**ANNUAL STATEMENT BLANK – LIFE/FRATERNAL AND HEALTH (LIFE SUPPLEMENT)**

**EXHIBIT 7 – DEPOSIT-TYPE CONTRACTS**

	1	2	3	4	5	6
	Total	Guaranteed Interest Contracts	Annuities Certain	Supplemental Contracts	Dividend Accumulations or Refunds	Premium and Other Deposit Funds
1. Balance at the beginning of the year before reinsurance.....	.....	.....	.....	.....	.....	.....
2. Deposits received during the year .....	.....	.....	.....	.....	.....	.....
3. Investment earnings credited to the account .....	.....	.....	.....	.....	.....	.....
4. Other net change in reserves.....	.....	.....	.....	.....	.....	.....
5. Fees and other charges assessed .....	.....	.....	.....	.....	.....	.....
6. Surrender charges .....	.....	.....	.....	.....	.....	.....
7. Net surrender or withdrawal payments.....	.....	.....	.....	.....	.....	.....
8. Other net transfers to or (from) Separate Accounts.....	.....	.....	.....	.....	.....	.....
9. Balance at the end of current year before reinsurance (a) (Lines 1+2+3+4-5-6-7-8) .....	.....	.....	.....	.....	.....	.....
10. Reinsurance balance at the beginning of the year .....	.....	.....	.....	.....	.....	.....
11. Net change in reinsurance assumed.....	.....	.....	.....	.....	.....	.....
12. Net change in reinsurance ceded .....	.....	.....	.....	.....	.....	.....
13. Reinsurance balance at the end of the year (Lines 10+11-12) .....	.....	.....	.....	.....	.....	.....
14. Net balance at the end of current year after reinsurance (Lines 9+13)	.....	.....	.....	.....	.....	.....

(a) FHLB Funding Agreements

1. Reported as a GICs (captured in column 2): ..... \$
2. Reported as an Annuities Certain (captured in column 3): ..... \$
3. Reported as Supplemental Contracts (captured in column 4): ..... \$
4. Reported as Dividend Accumulations or Refunds (captured in column 5): ..... \$
5. Issued as Premium or Other Deposit Funds (captured in column 6): ..... \$
6. Total Issued as Deposit-Type Contracts (captured in column 1): (Sum of Lines 1 through 6) ..... \$

**Staff Review Completed by:** Jim Pinegar, NAIC Staff – October 2021

**Status:**

On October 25, 2021, in response to an e-vote to expose, the Statutory Accounting Principles (E) Working Group exposed this agenda item for public comment. This agenda item does not propose statutory accounting revisions, however resulted in a referral to the Blanks (E) Working Group to include a supplemental data capture footnote for FHLB borrowings that are classified as a deposit-type contract and reported on *Exhibit 7 – Deposit-Type Contracts*.

On December 11, 2021, the Statutory Accounting Principles (E) Working Group adopted this agenda item, which did not result in statutory accounting revisions, however the adoption expressed support of the corresponding Blanks (E) Working Group agenda item (2021-15BWG). The blanks agenda item includes a supplemental data capture footnote for FHLB borrowings that are classified as a deposit-type contract and reported on *Exhibit 7 – Deposit-Type Contracts*.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-I\\_21-16\\_SSAP No. 30R\\_FHLB Disclosure\\_Blanks Referral.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/Fall%202021/TF/App/SAP/Minutes/Att%20One-I_21-16_SSAP%20No.%2030R_FHLB%20Disclosure_Blanks%20Referral.docx)



**Statutory Accounting Principles (E) Working Group  
Maintenance Agenda Submission Form  
Form A**

**Issue:** SSAP No. 32R – Permitted Valuation Methods

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** This agenda item’s primary purpose is to propose minor revisions to SSAP No. 32R to clarify the applicable measurement methods for preferred stock. For a brief historical context, in July 2020, the Working Group adopted *Issue Paper No. 164—Preferred Stock* and substantively revised *SSAP No. 32R—Preferred Stock*. The substantively revised SSAP No. 32R was effective January 1, 2021, however in October 2020, agenda item 2020-31, permitted early application of the newly revised standard.

As described in Issue Paper No. 164, paragraph 17, the historical guidance in SSAP No. 32 captured different accounting and reporting provisions based on whether the preferred stock was classified as redeemable or perpetual, and whether the reporting entity maintained an Asset Valuation Reserve. Although these classifications were still considered appropriate, in 2020, the Statutory Accounting Principles (E) Working Group reviewed the permissible valuation methods for redeemable preferred stock – specifically the prior guidance in SSAP No. 32 that permitted “historical cost” as an applicable measurement method. During the development of SSAP No. 32R, and consistent with prior conclusions from U.S. GAAP, the Working Group concluded that “historical cost” is generally not an acceptable measurement method for this type of instrument. However, during the implementation of SSAP No. 32R, it was discovered that a lingering reference to “cost” being a permissible reporting value remained in the authoritative literature.

This agenda item has been drafted to 1) remove lingering references which indicate that cost is a permissible valuation method, and 2) remove descriptive language regarding redeemable preferred stock to ensure consistency with other identical edits made when SSAP No. 30 was substantively revised.

**Existing Authoritative Literature:** The primary outstanding reference to “cost” is found in paragraph 11 of SSAP No. 32R - relevant items have been bolded for emphasis.

**Balance Sheet Amount**

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

- a. For reporting entities that do not maintain an AVR:
  - i. Highest-quality or high-quality redeemable preferred stocks (NAIC designations 1 and 2), which have characteristics of debt securities, shall be **valued at cost** or amortized cost. All other redeemable preferred stocks (NAIC designations 3 to 6) shall be **reported at the lower of cost**, amortized cost, or fair value.
  - ii. Perpetual preferred stock and publicly traded preferred stock warrants shall be reported at fair value, not to exceed any currently effective call price.

- iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, not to exceed any currently effective call price, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
- iv. For preferred stocks reported at fair value, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus)
- b. For reporting entities that maintain an AVR:
  - i. Highest-quality, high-quality or medium quality redeemable preferred stocks (NAIC designations 1 to 3) shall be valued at amortized cost. All other redeemable preferred stocks (NAIC designations 4 to 6) shall be reported at the lower of amortized cost or fair value.
  - ii. Perpetual preferred stock and publicly preferred stock warrants shall be valued at fair value, not to exceed any currently effective call price.
  - iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, not to exceed any currently effective call price, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
  - iv. For preferred stocks reported at fair value, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

**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):** In addition to the previous activity that was summarized in the “Description of Issue” section, in Aug. 2021, the Working Group adopted revisions from agenda item 2021-10: SSAP No. 32R – Clarification of Effective Call Price. Adopted revisions clarified that the “effective call price” valuation limitation for instruments with outstanding call provisions shall only apply if the call is currently exercisable by the issuer or if the issuer has announced that the instrument will be redeemed/called.

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

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

**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. 32R—Preferred Stock* to remove lingering references indicating that cost is an allowable valuation method. Note that the additional proposed edits in SSAP No. 32R, paragraph 11.a.i., regarding removing the reference to “characteristics of debt securities” was proposed to ensure consistency with prior approved edits to yield what is now SSAP No. 32R, paragraph 11.b.i.

**Proposed edits to SSAP No. 32R:**

**Balance Sheet Amount**

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

- a. For reporting entities that do not maintain an AVR:
  - i. Highest-quality or high-quality redeemable preferred stocks (NAIC designations 1 and 2), ~~which have characteristics of debt securities,~~ shall be valued at ~~cost or~~ amortized cost. All other redeemable preferred stocks (NAIC designations 3 to 6) shall be reported at the lower of ~~cost,~~ amortized cost, or fair value.
  - ii. Perpetual preferred stock and publicly traded preferred stock warrants shall be reported at fair value, not to exceed any currently effective call price.
  - iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, not to exceed any currently effective call price, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
  - iv. For preferred stocks reported at fair value, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus)
- b. For reporting entities that maintain an AVR:
  - i. Highest-quality, high-quality or medium quality redeemable preferred stocks (NAIC designations 1 to 3) shall be valued at amortized cost. All other redeemable preferred stocks (NAIC designations 4 to 6) shall be reported at the lower of amortized cost or fair value.
  - ii. Perpetual preferred stock and publicly preferred stock warrants shall be valued at fair value, not to exceed any currently effective call price.
  - iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, not to exceed any currently effective call price, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
  - iv. For preferred stocks reported at fair value, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

**Staff Review Completed by:** Jim Pinegar, NAIC Staff – September 2021

**Status:**

On October 25, 2021, in response to an e-vote to expose, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 32R—Preferred Stock* to remove lingering references which indicate that cost is an allowable valuation method for redeemable preferred stock.

On December 11, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *SSAP No. 32R—Preferred Stock*, as illustrated above. The revisions remove lingering references which indicate that cost is an allowable valuation method for redeemable preferred stock. The revisions also included other minor updates to ensure consistent phraseology with prior modifications.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-J\\_21-17\\_SSAP No. 32R\\_Permitted Valuation Methods.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/Fall%2021/TF/App/SAP/Minutes/Att%20One-J_21-17_SSAP%20No.32R_Permitted%20Valuation%20Methods.docx)

**NAIC Accounting Practices and Procedures Manual  
Editorial and Maintenance Update  
October 25, 2021**

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual* (AP&P Manual), such as editorial corrections, reference changes and formatting.

SSAP/Appendix	Description/Revision
SSAP No. 16R	Correct cross paragraph references in paragraphs 11.b and 12.b of <i>SSAP No. 16R – Electronic Data Processing Equipment and Software</i>
SSAP No. 43R	Removes outdated references to guidance which was previously deleted in Oct. 2017 (agenda item 2017-22).

**Recommendation:**

NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorize as nonsubstantive, and expose editorial revisions as illustrated below.

**Status:**

On October 25, 2021, in response to an e-vote, the Statutory Accounting Principles (E) Working Group exposed the editorial revisions, shown below, for public comment.

On December 11, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed editorial revisions as shown below.

**SSAP No. 16R – Electronic Data Processing Equipment and Software**

11. This statement also adopts with modification the guidance reflected in ASC 350-40 for cloud computing arrangements as modified by *ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* and in this statement. Consistent with U.S. GAAP, the guidance in this statement for cloud computing hosting arrangements varies based on whether the cloud computing arrangement is a service contract:

- a. An arrangement that is not a service contract applies to internal-use software if the 1) reporting entity has the contractual right to take possession of the software at any time during the hosting period without significant penalty; and 2) it is feasible for the reporting entity to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software.
- b. If both conditions in paragraph 112.a. are not met, then the arrangement for internal-use software is considered a service contract.

12. For hosting arrangements that are not service contracts, reporting entities shall account for any internal-use software as follows:

- a. The reporting entity shall recognize an operating or non-operating system software asset for the costs incurred for the software license in accordance with paragraph 3 of this statement. This is a modification from U.S. GAAP in which the asset is recognized as an intangible asset. A liability shall also be recognized if payments for the software license are still required.

- b. If the reporting entity has a hosting arrangement that includes both the acquisition of a software asset (pursuant to paragraph 112.a.) and an ongoing hosting arrangement, the reporting entity shall allocate the costs of the arrangement to the different elements. Costs for the ongoing hosting arrangement shall be accounted for in accordance with SSAP No. 22R—Leases.

**SSAP No. 43R – Loan-Backed and Structured Securities**

31. If the fair value of a loan-backed or structured security is less than its amortized cost basis at the balance sheet date, an entity shall assess whether the impairment is other than temporary. Amortized cost basis includes adjustments made to the cost of an investment for accretion, amortization, collection of cash, previous other-than-temporary impairments recognized as a realized loss ~~(including any cumulative effect adjustments recognized in accordance with paragraphs 58-60 of this statement).~~

**Statutory Accounting Principles (E) Working Group  
Maintenance Agenda Submission Form  
Form A**

**Issue:** Policy Statement Terminology Change – Substantive & Nonsubstantive

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** Pursuant to the Aug. 14, 2021 referral from the Financial Condition (E) Committee, the discussion involving *SSAP No. 71—Policy Acquisition Costs and Commissions*, has highlighted that the statutory accounting terminology of “substantive” and “nonsubstantive” to describe statutory accounting revisions being considered by the Statutory Accounting Principles (E) Working Group to the *Accounting Practices and Procedures Manual* (AP&P Manual) could be misunderstood by users that are not familiar with the specific definitions and intended application of those terms. To avoid the incorrect perception that these terms may reflect the degree of financial impact to companies based on their common usage, the Financial Condition (E) Committee requests that the Statutory Accounting Principles consider updating these terms to prevent future misunderstandings.

**Additional Referral Excerpts:**

The Financial Condition (E) Committee understands the terms “substantive” and “nonsubstantive” were crafted as part of the statutory accounting principles (SAP) codification, which was finalized in 1998, and were intended to be simple, concise terms to differentiate whether proposed revisions reflect new SAP concepts (substantive) or clarification of existing SAP concepts (nonsubstantive). The source location for the definitions and classification criteria of these terms is the NAIC Policy Statement on Maintenance of Statutory Accounting Principles, but it is noted that the terms and definitions are referred to throughout SAP guidance, other policy statements, issue papers, and agenda items.

The Working Group should consider eliminating “substantive” and “nonsubstantive” and instead refer to the type of revisions in accordance with the general nature in which those terms were intended to reflect. As such a revision that would have previously been considered “substantive” could be referred to as a “New SAP Concept” and a revision that would have previously been considered as “nonsubstantive” could be referred to as a “SAP Clarification.” The Committee is not proposing that the Working Group reassess the classification criteria but is simply requesting terminology changes to prevent future misinterpretations or assessments by others. As such, unless the Working Group believes further revisions are necessary, statutory revisions that would have been previously classified as “nonsubstantive” are anticipated to continue to fall within that definition and be captured under the new terminology as a “SAP Clarification.”

The referral also includes proposed revisions to the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles* as potential suggestions to incorporate the proposed guidance change. (These proposed edits are shown in the Aug. 26, 2021, proposed edits for exposure.)

### **Existing Authoritative Literature:**

Although the terms “substantive” and “nonsubstantive” are used throughout the AP&P Manual, the source location for the definitions of these terms is the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*:

#### **NAIC Policy Statement on Maintenance of Statutory Accounting Principles**

1. Statutory accounting principles (SAP) provide the basis for insurers to prepare financial statements to be filed with and utilized by state insurance departments for financial regulation purposes. Accuracy and completeness of such filings are critical to meaningful solvency monitoring. Accordingly, maintenance of SAP guidance for changes in the industry and changes in regulatory concerns is vital to preserving the usefulness of SAP financial statements.
2. The promulgation of new or revised SAP guidance by the NAIC ultimately requires action of the entire NAIC membership. Responsibility for proposing new or revised SAP guidance will be delegated through the NAIC committee structure to the Accounting Practices and Procedures (E) Task Force (Task Force). The Task Force will charge the Statutory Accounting Principles (E) Working Group (Working Group) with the exclusive responsibility to develop and propose new statements of statutory accounting principles (SSAPs), to revise existing SSAPs, and to issue interpretations.

#### **Composition of the Statutory Accounting Principles (E) Working Group**

3. The chair of the Task Force shall determine membership of the Working Group subject to approval by the Financial Condition (E) Committee. The Working Group shall be limited in size to no more than 15 members and will include representation from the four zones of the NAIC. Membership shall be vested in the state (until such time as the membership may be changed) but continuity of individuals, to the extent possible, is extremely desirable.

#### **Development of New or Substantively Revised SSAPs**

4. New SSAPs will be developed to address, but will not be limited to: 1) concepts not previously addressed by a SSAP and that do not fit within the scope of an existing SSAP; 2) concepts that fit within the scope of an existing SSAP, but the Working Group elects to supersede existing SSAPs and 3) existing concepts that warrant significant revisions. Substantively-revised SSAPs will be developed to address, but will not be limited to: 1) concepts that fit within the accounting topic of an existing SSAP, but have not been addressed by the Working Group; 2) changes to the valuation and/or measurement of an existing SSAP; and 3) modifications to the overall application of existing SSAPs. The decision to undertake development of a new or substantively revised SSAP will rest with the Working Group. New or substantively revised SSAPs will have a specified effective date.
5. Research and drafting of new or substantially revised SSAPs will be performed by NAIC staff under the direction and supervision of the Working Group which may enlist the assistance of interested parties and/or consultants with requisite technical expertise as needed or desired. The first step in developing new and substantively revised SSAPs will commonly be the drafting of an issue paper, which will contain a summary of the issue, a summary conclusion, discussion, and a relevant literature section. Public comments will be solicited on an issue paper (at least one exposure period), and at least one public hearing will be held before the issue paper is converted to a SSAP. Upon approval by the Working Group, all proposed SSAPs will be exposed for public comment for a period commensurate with the length of the draft and the complexities of the issue(s). After a hearing of comments, adoption of new or substantively revised SSAPs (including any amendments from exposure) may be made by simple majority. If no comments are received during the public comment period, the Working Group may adopt the proposal collectively (one motion/vote) with other non-contested positions after the opportunity is given during the hearing to separately discuss the proposal. All new and substantively revised SSAPs must be on the agenda for at least one public hearing before presentation to the Task Force for consideration. Adoption by the Task Force, its parent and the NAIC membership shall be governed by the NAIC bylaws.



6. The Working Group may, by a super majority vote (7 out of 10 members, 8 out of 11 or 12, 9 out of 13, 10 out of 14, and 11 out of 15) elect to: 1) combine the IP and SSAP process, resulting in concurrent exposure of the two documents; 2) expose and adopt revisions to a SSAP prior to the drafting/adoption of the related IP; and/or 3) forego completion of an IP and only proceed with revisions to a substantively revised SSAP.

7. If accounting guidance, reserving standards, asset valuation standards, or any other standards or rules affecting accounting practices and procedures are first developed by other NAIC working groups, task forces, subcommittees, or committees, such proposed guidance, standards or rules shall be presented to the Working Group for consideration. In cases where such guidance has already been subjected to substantial due process (e.g., public comment periods and/or public hearings), the Working Group may elect to shorten comment periods and/or eliminate public hearings, and in such cases, will notify the Task Force of these actions.

### **Development of Nonsubstantive Revisions to SSAPs**

8. Nonsubstantive revisions to SAP will be developed to address, but will not be limited to: 1) clarification of the intent or application of existing SSAPs; 2) new disclosures and modification of existing disclosures; 3) revisions that do not change the intent of existing guidance; and 4) revisions to *Appendix A—Excerpts of NAIC Model Laws* to reflect amendments to NAIC adopted model laws and regulations. Research and drafting of nonsubstantive revisions will be performed by NAIC staff under the direction and supervision of the Working Group. Public comment will be solicited on nonsubstantive revisions, and the item will be included on the agenda for at least one public hearing before the Working Group adopts nonsubstantive revisions. Nonsubstantive revisions are considered effective immediately after adoption by the Working Group, unless the Working Group incorporates a specific effective date. If comments are not received during the public comment period, the Working Group may adopt the proposal collectively (one motion/vote) with other “non-contested” positions after opportunity is given during the hearing to separately discuss the proposal. At its discretion, the Working Group may request that an issue paper be drafted for nonsubstantive revisions in order to capture historical discussion and adopted revisions. Adoption of nonsubstantive revisions by the Task Force, its parent and the NAIC membership shall be governed by the NAIC bylaws.

### **Development of Interpretations to SSAPs and Referencing Interpretations Within SSAPs**

#### **Interpretations Which DO NOT Amend, Supersede or Conflict with Existing SSAPs**

9. Interpretations may be developed to address issues requiring timely application or clarification of existing SAP, which shall not amend, supersede or conflict with effective SSAPs. Issues being considered as an interpretation must be discussed at no less than two open meetings. (Original introduction of the issue when the Working Group identifies the intent to address the issue as an “interpretation” during a public discussion is considered the first open meeting discussion.) The process must allow opportunity for interested parties to provide comments, but as interpretations are intended to provide timely responses to questions of application or interpretation and clarification of guidance, no minimum exposure timeframe is required.

10. As these interpretations do not amend, supersede or conflict with existing SSAP guidance, the interpretation is effective upon Working Group adoption unless specifically stated otherwise. The voting requirement to adopt an interpretation of this type is a simple majority. The Working Group shall report the adopted interpretation to the Accounting Practices and Procedures (E) Task Force as part of its public report during the next NAIC national meeting (or earlier if applicable). Interpretations can be overturned, amended or deferred by a two-thirds majority of the Task Force membership. For clarification, a two-thirds majority of the Task Force requires two-thirds of the entire Task Force membership, not just those electing to vote. Additionally, interpretations can be overturned, amended, deferred, or referred to either the Task Force and/or the Working Group by a simple majority of the Financial Condition (E) Committee.

## Interpretations Which Amend, Supersede or Conflict with Existing SSAPs

11. In certain circumstances such as catastrophes and other time-sensitive issues requiring immediate, temporary statutory accounting guidance, the Working Group may adopt an interpretation which creates new SAP or conflicts with existing SSAPs. Historically, these interpretations temporarily modified statutory accounting principles and/or specific disclosures were developed in response to nationally significant events (e.g., Hurricane Sandy, September 11, 2001). (Examples of time-sensitive issues that have previously provided INT exceptions to SAP include the transition from LIBOR and special situations such as the federal TALF program.) Interpretations that conflict with existing SSAPs shall be temporary and restricted to circumstances arising from the need to issue guidance for circumstances requiring immediate guidance. In order to adopt an interpretation that creates new SAP or conflicts with existing SSAPs, the Working Group must have 67% of its members voting (10 out of 15 members) with a super majority (7 out of 10, 8 out of 11 or 12, 9 out of 13, 10 out of 14, or 11 out of 15) supporting adoption.

- a. These interpretations are effective upon Working Group adoption, unless stated otherwise, and shall be reported to the Accounting Practices and Procedures (E) Task Force as part of its public report during the next NAIC national meeting (or earlier if applicable). In circumstances where the Working Group adopts an interpretation (which creates new SAP or conflicts with existing SSAPs) that is controversial in nature (i.e., due to regulator or industry feedback or could have a policy level impact), the Working Group may elect to postpone the effective date until the item has been discussed by the Task Force and the Financial Condition (E) Committee and both have had an opportunity to review the interpretation.
- b. These interpretations can be overturned, amended or deferred by a two-thirds majority of the Task Force membership. For clarification, a two-thirds majority of the Task Force requires two-thirds of the entire Task Force membership, not just those electing to vote. Additionally, interpretations can be overturned, amended, deferred, or referred to either the Task Force and/or the Working Group by a simple majority of the Financial Condition (E) Committee.

12. As new SSAPs are developed, it is essential to review and, if necessary, update the status of interpretations related to SSAPs that are being replaced and/or new SSAPs being developed. The following options are available to the Working Group when a SSAP with existing interpretations is replaced:

- a. **Interpretation of the new SSAP** - If the Working Group would like to maintain the interpretation, the new SSAP can be added to the list of statements interpreted by the interpretation. In addition, the status section of the new SSAP will list the interpretation number next to the heading "Interpreted by."
- b. **Nullification** - When an interpretation is nullified by a subsequent SSAP or superseded by another interpretation, the interpretation is deemed no longer technically helpful, is shaded and moved to Appendix H (Superseded SSAPs and Nullified Interpretations), and the reason for the change is noted beneath the interpretation title. The status section of the SSAP describes the impact of the new guidance and the effect on the interpretation (for example, nullifies, incorporated in the new SSAP with paragraph reference, etc.).
- c. **Incorporation** - When an interpretation is incorporated into a new SSAP, the Working Group can choose from the following two options:
  - i. If the interpretation only interprets one SSAP, then the interpretation is listed as being nullified under the "affects" section of the SSAP and is not referenced under the "interpreted by" section of the status page of the SSAP.

- ii. If the interpretation references additional SSAPs, and the Working Group intends to maintain the guidance, the interpretation is unchanged (no nullification). The new SSAP (Summary of Issue section) reflects that the interpretation issue has been incorporated into the new statement.

**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):** N/A

**Staff Recommendation:**

**NAIC staff recommends that the Working Group move this item to the active listing and expose revisions to the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, as suggested by the Financial Condition (E) Committee in their Aug. 14, 2021, referral, to alter the terminology used when discussing types of statutory accounting revisions.**

Due to the extent that these terms are currently used throughout the AP&P Manual, upon adoption of this terminology change, NAIC staff will utilize the new terminology on a go-forward basis. These updates will be limited to the guidance that describes the use of these terms and will not capture previously adopted SSAPs, issue papers or agenda items. The terms used in previously adopted guidance will remain, with the new terms being used prospectively when considering future revisions to statutory accounting.

**Aug. 26, 2021 - Proposed Revisions from Aug. 14, 2021, Financial Condition (E) Committee Referral:**

**NAIC Policy Statement on Maintenance of Statutory Accounting Principles**

1. Statutory accounting principles (SAP) provide the basis for insurers to prepare financial statements to be filed with and utilized by state insurance departments for financial regulation purposes. Accuracy and completeness of such filings are critical to meaningful solvency monitoring. Accordingly, maintenance of SAP guidance for changes in the industry and changes in regulatory concerns is vital to preserving the usefulness of SAP financial statements.
2. The promulgation of new or revised SAP guidance by the NAIC ultimately requires action of the entire NAIC membership. Responsibility for proposing new or revised SAP guidance will be delegated through the NAIC committee structure to the Accounting Practices and Procedures (E) Task Force (Task Force). The Task Force will charge the Statutory Accounting Principles (E) Working Group (Working Group) with the exclusive responsibility to develop and propose new statements of statutory accounting principles (SSAPs), to revise existing SSAPs, and to issue interpretations.

**Composition of the Statutory Accounting Principles (E) Working Group**

3. The chair of the Task Force shall determine membership of the Working Group subject to approval by the Financial Condition (E) Committee. The Working Group shall be limited in size to no more than 15 members and will include representation from the four zones of the NAIC. Membership shall be vested in the state (until such time as the membership may be changed) but continuity of individuals, to the extent possible, is extremely desirable.

**Development of New SSAPs or New SAP Concepts<sup>1</sup> in an Existing SSAP~~Substantively Revised SSAPs~~**

4. New SSAPs will be developed to address, but will not be limited to: 1) concepts not previously addressed by a SSAP and that do not fit within the scope of an existing SSAP; 2) concepts that fit within the scope of an existing SSAP, but the Working Group elects to supersede existing SSAPs and 3) existing concepts that warrant significant revisions. ~~Substantively revised~~ New SAP concepts to existing SSAPs will be developed to address, but will not be limited to: 1) concepts that fit within the accounting topic of an existing SSAP, but have not been addressed by the Working Group; 2) changes to the valuation and/or measurement of an existing SSAP; and 3) modifications to the overall application of existing SSAPs. The decision to undertake development of a new SSAP or ~~substantively a new SAP concept in an existing~~ revised SSAP will rest with the Working Group. New SSAPs or ~~substantively new SAP concept in an existing~~ revised SSAPs will have a specified effective date.

5. Research and drafting of a new SSAP or ~~substantially a new SAP concept in an existing~~ revised SSAPs will be performed by NAIC staff under the direction and supervision of the Working Group which may enlist the assistance of interested parties and/or consultants with requisite technical expertise as needed or desired. The first step in developing new SSAPs and ~~substantively new SAP concepts in existing~~ revised SSAPs will commonly be the drafting of an issue paper, which will contain a summary of the issue, a summary conclusion, discussion, and a relevant literature section. Public comments will be solicited on an issue paper (at least one exposure period), and at least one public hearing will be held before the issue paper is converted to a SSAP. Upon approval by the Working Group, all proposed SSAPs will be exposed for public comment for a period commensurate with the length of the draft and the complexities of the issue(s). After a hearing of comments, adoption of new SSAPs or new SAP concepts in existing ~~substantively revised~~ SSAPs (including any amendments from exposure) may be made by simple majority. If no comments are received during the public comment period, the Working Group may adopt the proposal collectively (one motion/vote) with other non-contested positions after the opportunity is given during the hearing to separately discuss the proposal. All new SSAPs and ~~substantively revised~~ new SAP concepts in existing SSAPs must be on the agenda for at least one public hearing before presentation to the Task Force for consideration. Adoption by the Task Force, its parent and the NAIC membership shall be governed by the NAIC bylaws.

6. The Working Group may, by a super majority vote (7 out of 10 members, 8 out of 11 or 12, 9 out of 13, 10 out of 14, and 11 out of 15) elect to: 1) combine the IP and SSAP process, resulting in concurrent exposure of the two documents; 2) expose and adopt revisions to a SSAP prior to the drafting/adoption of the related IP; and/or 3) forego completion of an IP and only proceed with a new SSAP or new SAP concepts in an existing ~~revisions to a substantively revised~~ SSAP.

7. If accounting guidance, reserving standards, asset valuation standards, or any other standards or rules affecting accounting practices and procedures are first developed by other NAIC working groups, task forces, subcommittees, or committees, such proposed guidance, standards or rules shall be presented to the Working Group for consideration. In cases where such guidance has already been subjected to substantial due process (e.g., public comment periods and/or public hearings), the Working Group may elect to shorten comment periods and/or eliminate public hearings, and in such cases, will notify the Task Force of these actions.

**Development of SAP Clarifications<sup>1</sup> ~~Nonsubstantive Revisions to SSAPs~~**

8. SAP clarifications ~~Nonsubstantive revisions to SAP~~ will be developed to address, but will not be limited to: 1) clarification of the intent or application of existing SSAPs; 2) new disclosures and modification of existing disclosures; 3) revisions that do not change the intent of existing guidance; and 4) revisions to *Appendix A—Excerpts of NAIC Model Laws* to reflect amendments to NAIC adopted model laws and regulations. Research and drafting of SAP clarification ~~nonsubstantive~~ revisions will be performed by NAIC staff under the direction and supervision of the Working Group. Public comment will be solicited on

~~nonsubstantive~~ these revisions, and the item will be included on the agenda for at least one public hearing before the Working Group adopts ~~nonsubstantive~~ revisions. ~~Nonsubstantive~~ SAP clarification revisions are considered effective immediately after adoption by the Working Group, unless the Working Group incorporates a specific effective date. If comments are not received during the public comment period, the Working Group may adopt the proposal collectively (one motion/vote) with other “non-contested” positions after opportunity is given during the hearing to separately discuss the proposal. At its discretion, the Working Group may request that an issue paper be drafted for ~~nonsubstantive~~ SAP clarification revisions in order to capture historical discussion and adopted revisions. Adoption of ~~nonsubstantive~~ these revisions by the Task Force, its parent and the NAIC membership shall be governed by the NAIC bylaws.

New Footnote 1: Prior to (adoption date), the term used to describe a new SAP concept was “substantive” and the term used to describe a SAP clarification was “nonsubstantive.” The new terms will be reflected in materials to describe revisions to statutory accounting principles on a prospective basis and historical documents will not be updated to reflect the revised terms.

### **Development of Interpretations to SSAPs and Referencing Interpretations Within SSAPs**

#### **Interpretations Which DO NOT Amend, Supersede or Conflict with Existing SSAPs**

9. Interpretations may be developed to address issues requiring timely application or clarification of existing SAP, which shall not amend, supersede or conflict with effective SSAPs. Issues being considered as an interpretation must be discussed at no less than two open meetings. (Original introduction of the issue when the Working Group identifies the intent to address the issue as an “interpretation” during a public discussion is considered the first open meeting discussion.) The process must allow opportunity for interested parties to provide comments, but as interpretations are intended to provide timely responses to questions of application or interpretation and clarification of guidance, no minimum exposure timeframe is required.

10. As these interpretations do not amend, supersede or conflict with existing SSAP guidance, the interpretation is effective upon Working Group adoption unless specifically stated otherwise. The voting requirement to adopt an interpretation of this type is a simple majority. The Working Group shall report the adopted interpretation to the Accounting Practices and Procedures (E) Task Force as part of its public report during the next NAIC national meeting (or earlier if applicable). Interpretations can be overturned, amended or deferred by a two-thirds majority of the Task Force membership. For clarification, a two-thirds majority of the Task Force requires two-thirds of the entire Task Force membership, not just those electing to vote. Additionally, interpretations can be overturned, amended, deferred, or referred to either the Task Force and/or the Working Group by a simple majority of the Financial Condition (E) Committee.

#### **Interpretations Which Amend, Supersede or Conflict with Existing SSAPs**

11. In certain circumstances such as catastrophes and other time-sensitive issues requiring immediate, temporary statutory accounting guidance, the Working Group may adopt an interpretation which creates new SAP or conflicts with existing SSAPs. Historically, these interpretations temporarily modified statutory accounting principles and/or specific disclosures were developed in response to nationally significant events (e.g., Hurricane Sandy, September 11, 2001). (Examples of time-sensitive issues that have previously provided INT exceptions to SAP include the transition from LIBOR and special situations such as the federal TALF program.) Interpretations that conflict with existing SSAPs shall be temporary and restricted to circumstances arising from the need to issue guidance for circumstances requiring immediate guidance. In order to adopt an interpretation that creates new SAP or conflicts with existing SSAPs, the Working Group must have 67% of its members voting (10 out of 15 members) with a super majority (7 out of 10, 8 out of 11 or 12, 9 out of 13, 10 out of 14, or 11 out of 15) supporting adoption.

- a. These interpretations are effective upon Working Group adoption, unless stated otherwise, and shall be reported to the Accounting Practices and Procedures (E) Task Force as part of its public report during the next NAIC national meeting (or earlier if applicable). In circumstances where the Working Group adopts an interpretation (which creates new SAP or conflicts with existing SSAPs) that is controversial in nature (i.e., due to regulator or industry feedback or could have a policy level impact), the Working Group may elect to postpone the effective date until the item has been discussed by the Task Force and the Financial Condition (E) Committee and both have had an opportunity to review the interpretation.
  - b. These interpretations can be overturned, amended or deferred by a two-thirds majority of the Task Force membership. For clarification, a two-thirds majority of the Task Force requires two-thirds of the entire Task Force membership, not just those electing to vote. Additionally, interpretations can be overturned, amended, deferred, or referred to either the Task Force and/or the Working Group by a simple majority of the Financial Condition (E) Committee.
12. As new SSAPs are developed, it is essential to review and, if necessary, update the status of interpretations related to SSAPs that are being replaced and/or new SSAPs being developed. The following options are available to the Working Group when a SSAP with existing interpretations is replaced:
- a. **Interpretation of the new SSAP** - If the Working Group would like to maintain the interpretation, the new SSAP can be added to the list of statements interpreted by the interpretation. In addition, the status section of the new SSAP will list the interpretation number next to the heading "Interpreted by."
  - b. **Nullification** - When an interpretation is nullified by a subsequent SSAP or superseded by another interpretation, the interpretation is deemed no longer technically helpful, is shaded and moved to Appendix H (Superseded SSAPs and Nullified Interpretations), and the reason for the change is noted beneath the interpretation title. The status section of the SSAP describes the impact of the new guidance and the effect on the interpretation (for example, nullifies, incorporated in the new SSAP with paragraph reference, etc.).
  - c. **Incorporation** - When an interpretation is incorporated into a new SSAP, the Working Group can choose from the following two options:
    - i. If the interpretation only interprets one SSAP, then the interpretation is listed as being nullified under the "affects" section of the SSAP and is not referenced under the "interpreted by" section of the status page of the SSAP.
    - ii. If the interpretation references additional SSAPs, and the Working Group intends to maintain the guidance, the interpretation is unchanged (no nullification). The new SSAP (Summary of Issue section) reflects that the interpretation issue has been incorporated into the new statement.

**Staff Review Completed by:** Julie Gann, NAIC Staff – August 2021

**Status:**

On August 26, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, as illustrated above and suggested by the Financial Condition (E) Committee in their Aug. 14, 2021, referral, to alter the terminology used when discussing types of statutory accounting revisions.

On December 11, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, as illustrated above and suggested by the Financial Condition (E) Committee in their Aug. 14, 2021, referral. The revisions alter the terminology used when discussing types of statutory accounting revisions and are effective Jan. 1, 2022. Editorial revisions to update the use of the terms in other areas of the AP&P Manual, on a prospective basis, are being addressed separately in agenda item 2021-26EP.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/SAP/Minutes/Att One-L\\_21-14 \\_SAP Terminology.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/Fall%202021/TF/App/SAP/Minutes/Att%20One-L_21-14_SAP%20Terminology.docx)

Draft: 12/11/21

Blanks (E) Working Group  
Virtual Meeting  
November 16, 2021

The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Nov. 16, 2021. The following Working Group members participated: Jake Garn, Chair (UT); Kim Hudson, Vice Chair (CA); William Arfanis (CT); N. Kevin Brown (DC); Tom Hudson (DE); Carolyn Morgan (FL); Daniel Mathis (IA); Roy Eft (IN); Judy Weaver (MI); Debbie Doggett (MO); Justin Schrader (NE); Patricia Gosselin (NH); Dale Bruggeman and Tracy Snow (OH); Diane Carter (OK); Melissa Greiner and Kimberly Rankin (PA); Trey Hancock (TN); Shawn Frederick and Jamie Walker (TX); Steve Drutz (WA); Adrian Jaramillo (WI); and Jamie Taylor (WV).

1. Adopted its July 22 Minutes

Mr. Garn said the Blanks (E) Working Group met July 22 and took the following action: 1) adopted proposal 2021-10BWG removing language in quarterly General Interrogatories Part 1, line 4.1 that requires filing of a quarterly merger/history form while still requiring the annual form; 2) adopted its editorial listing; 3) adopted the Health Actuarial Statement of Opinion Guidance for the 2021 reporting year; and 4) deferred four proposals for additional discussion for a 90-day public comment period ending Oct. 22.

Mr. Hudson made a motion, seconded by Ms. Gosselin, to adopt the Working Group's July 22 minutes (*see NAIC Proceedings – 2021 Summer, Accounting Practices and Procedures (E) Task Force, Attachment Two*). The motion passed unanimously.

2. Withdrew an Item Previously Deferred

a. Agenda Item 2021-12BWG

Mr. Drutz stated that this proposal makes changes to the Analysis of Operations by Lines of Business - Accident and Health for Life\Fraternal to capture health specific data captured on the Heath Analysis of Operations by Lines of Business but not on the Life\Fraternal Analysis of Operations page and add new crosschecks for the new lines.

Mr. Drutz stated that there were a lot of comments and discussions with interested parties on this proposal during the comment period. This proposal was modified from its original presentation but not modified during this latest comment period. Mr. Drutz stated that since he is proposing a replacement proposal—2021-17BWG—to be exposed at this meeting, he asked to withdraw this proposal. Mr. Garn stated that since Mr. Drutz is the proposal sponsor, he can withdraw without the need for a motion.

3. Deferred a Proposal

a. Agenda Item 2021-13BWG

Ms. Gosselin stated that this proposal adds a new supplement—Exhibit of Premiums and Losses (State Page) – Other Liability—to the property/casualty (P/C) blank to capture premium and loss data for annual statement line 17.1, line 17.2, and line 17.3. The purpose is to provide state insurance regulators with greater detail on business reported in the aggregate “other liability” category. The anticipated effective date is annual 2022. Ms. Gosselin stated that the proposal was modified from its original presentation at the last meeting to change incurred but not reported (IBNR) to “case reserves” and re-exposed to allow additional time for comments and discussion.

Ms. Gosselin stated that there were two comment letters received during the deferral/re-exposure period. Some of the comments included concerns over the cost to prepare versus benefits, recommendations to reduce format rationale for a reduction in the number of columns, and the basis of the category lines used in the proposal. Interested parties provided comments on how products are constructed in the data captured by industry. Ms. Gosselin stated that interested parties asked for deferral of this item and another re-exposure to allow additional time to evaluate the proposed alternative changes to the P/C annual statement.

Tip Tipton (Thrivent Financial) stated that interested parties have held a couple of meetings with state insurance regulators and NAIC staff to discuss this proposal. He stated that interested parties would appreciate being given additional time to determine an optimal solution to identify the inherent risks associated with the other liability category.



Ms. Gosselin made a motion, seconded by Mr. Hudson, to defer the proposal to allow for additional discussion. The motion passed unanimously.

4. Adopted a Proposal Previously Deferred

a. Agenda Item 2021-14BWG

Mr. Frederick stated that this proposal expands the number of lines of business reported on Schedule H to match the lines of business reported on the Health Statement. It modifies the instructions to be uniform between life/fraternal and P/C. Mr. Frederick stated that this proposal was modified with some line and column editorial corrections identified during the comment period.

Mr. Frederick made a motion, seconded by Mr. Hudson, to adopt the proposal with the editorial revisions (Attachment Two-A). The motion passed unanimously.

5. Rejected a Proposal Previously Deferred

a. Agenda Item 2021-11BWG

This proposal adds the data capture elements of direct written exposures and direct earned exposures for the personal lines of business of homeowners and private passenger auto (PPA) to the P/C annual and quarterly statements. Birny Birnbaum (Center for Economic Justice—CEJ) stated that during the re-exposure/deferral period, interested parties reiterated their concerns expressed at the Working Group's July 22 meeting. He stated that since the deferral, a memorandum has been received from the Financial Analysis (E) Working Group in which it states that there to be no value for financial analysts. He stated that there was no opportunity for stakeholders to participate in that discussion, so he is unclear as to how that decision was reached.

Mr. Birnbaum stated that the Casualty Actuarial and Statistical (C) Task Force provided feedback on the proposal, as well as looked at alternatives for calculating the average premium in a more timely manner. He stated that these are not viable alternatives because what they propose is merely an add-on to an antiquated statistical reporting system. It does not leverage the world class financial system. This proposal is consistent with the initiatives of the NAIC *State Ahead* strategic plan. The current process does not provide company-specific analysis and does not meet the same time frames by a large margin.

Mr. Birnbaum stated that he disagrees with the interested parties' comments referring to this as statistical data and not financial data. He stated that there is a variety of information in the financial statements that are not explicit financial data but used indirectly for financial analysis. This proposal adds two measures of exposures that are similar to those found in the life financial statements in terms of covered lives or policies in force, as well as those referenced in other exhibits and schedules within the P/C statement. Mr. Birnbaum stated that this proposal would provide useful and relevant information not just to the regulatory analysts, but also to the public and policymakers.

Mr. Garn stated that the Blanks (E) Working Group does not typically make policy decisions. The Working Group generally follows the direction of policymaking groups such as the Statutory Accounting Principles (E) Working Group, the Casualty Actuarial and Statistical (C) Task Force, or similar groups. Mr. Garn stated that absent clear direction from a policymaking group, the Blanks (E) Working Group has various options. He stated that it can vote to defer the proposal to allow additional time for discussion or propose a vote and see if a motion, second, and vote results in adoption, rejection, or the proposal not move forward for lack of a motion.

Mr. Birnbaum stated that the NAIC has a policy that supports this proposal. First, the NAIC publishes average premium for homeowners and automobile coverage in the Casualty Actuarial and Statistical (C) Task Force reports. He states that as a matter of policy, the NAIC has determined that the information is relevant and useful for the public, state insurance regulators, and policymakers. This proposal takes that same policy but makes it more effective by speeding up the access to that information in a way that makes the data useful and usable. Second, this proposal is supported by the NAIC *State Ahead* initiatives and its broader policy. Mr. Birnbaum stated that the referral to the Task Force was not the relevant entity to ask for an opinion on the policy issue but rather to comment on whether the data conflicted with its statistical reports. He stated that the Market Analysis Procedures (D) Working Group would be the more appropriate group to review this request, as it would be the group that would use the data. He stated that while he would prefer that the Blanks (E) Working Group vote to adopt the proposal, he stated that he is willing to hear suggestions from state insurance regulators that might make the information more useful.

Ms. Walker stated that this proposal appears to be requesting the implementation of a policy change. She suggested that this proposal be referred to the Financial Condition (E) Committee and Property and Casualty Insurance (C) Committee to decide the policy issue and provide direction on whether the Working Group should continue to refine this particular proposal. Ms. Walker made a motion to refer this proposal to the Financial Condition (E) Committee and Property and Casualty Insurance (C) Committee. The motion died for lack of a second. Ms. Walker made a motion to reject the proposal. She suggested that a new proposal could be resubmitted at a later time when there is a policy decision with consensus from a technical committee.

Mr. Tipton stated that he heard collectively from interested parties confirming the opinion that the Working Group is not the appropriate group to decide on this data. He stated that with the comments received from the Casualty Actuarial and Statistical (C) Task Force and Financial Analysis (E) Working Group indicating the lack of support for the proposal, interested parties agree that rejection of this proposal is appropriate at this time.

Rachel Underwood (Cincinnati Insurance Companies) stated that the proposal sponsor agreed that the change would not be needed if the Casualty Actuarial and Statistical (C) Task Force could produce the reports faster. She stated that the Task Force indicated that it is not in favor of quarterly reports, and the averages per exposure do not change quickly nor significantly year-to-year. For historical averages, she has found that the average annual change in auto average premium per exposure from 2009 to 2018 was 3.1% or \$32. In looking at a more narrow time range from 2014 to 2018, the average annual change was 4.9% or \$52. For homeowners, the average premium exposure from 2013 to 2018 showed an average annual change of 3% or \$33. For tenants policies of the same period, there was a decrease of 0.2% or \$1. Ms. Underwood stated that the materiality does not justify the expense of having companies report the additional data. She stated that this level of detail is not used in the rate and forms filings. She stated that her company sends their data files to a third-party statistical agent, who is also a data contributor to the Task Force reports, which calculates the exposure counts.

Ms. Underwood indicated that the implementation project is estimated at approximately \$300,000 over at least a six-month period. Over 2,500 P/C company statements are rolled into hundreds of filing groups. Assuming this would affect even 200 of these groups, she suggested the estimated cost to the industry being \$60 million. She expressed concerns with the quality of the data.

Mr. Birnbaum stated that he has concerns with the accuracy of the figures quoted by Ms. Underwood. Mr. Garn stated that those discussions should be held at a technical group level and not with the Blanks (E) Working Group.

Ms. Walker made a motion, seconded by Mr. Mathis, to reject the proposal. The motion passed with Mr. Hudson and Mr. Arfanis opposed.

## 6. Exposed New Items

### a. Agenda Item 2021-15BWG

Mr. Bruggeman stated that this blanks proposal is in response to the Statutory Accounting Principles (E) Working Group agenda item 2021-16. This agenda item was exposed by the Working Group and will be considered for adoption at the Fall National Meeting. The agenda item is in direct response to state insurance regulator comments stating that it is not feasible to identify where Federal Home Loan Bank (FHLB) funding agreements are captured in Exhibit 7: Deposit Type Contracts. As FHLB funding agreements can be captured on different types of deposit-type contract policy forms (e.g., as a guaranteed investment contracts, annuity certain, or other deposit funds), funding agreements can be reported differently on Exhibit 7 among reporting entities. Mr. Bruggeman stated that to preserve the current reporting on Exhibit 7 by type of policy form and obtain information on where FHLB funding agreements are captured, this blanks proposal proposes a new footnote to capture the FHLB funding agreement in each reporting category. He stated that although exposure of the blanks proposal is occurring before the Working Group considers adoption of agenda item 2021-16, any changes that might be made to its agenda item at the Fall National Meeting will be communicated to the Blanks (E) Working Group prior to it considering adoption of this item.

Hearing no objection from the Blanks (E) Working Group, the proposal was exposed for a public comment period ending March 4, 2022.

### b. Agenda Item 2021-16BWG

Mr. Bruggeman stated that this blanks proposal is not in response to any current revisions nor issues being considered by the Statutory Accounting Principles (E) Working Group, but it reflects clarification to existing disclosures captured in *Statement*

of *Statutory Accounting Principles (SSAP) No. 101—Income Taxes* and *SSAP No. 22R—Leases*. Revisions to the blanks only intend to clarify the instructions for reporting, result in consistency between the data-capture disclosure and the portable document format (PDF) submission, clarify the reporting of future lease payments.

Hearing no objection from the Blanks (E) Working Group, the proposal was exposed for a public comment period ending March 4, 2022.

c. Agenda Item 2021-17BWG

Mr. Drutz stated that this proposal replaces 2021-12BWG and modifies the Analysis of Operations by Lines of Business in the Health Blank to include all of health lines of business included in the Life/Fraternal Analysis of Operations by Lines of Business – Accident and Health. He stated that the proposal adds instructions for the new columns and adjusts the column references. It adds the Health Blank Analysis of Operations by Lines of Business as a supplement to the Life/Fraternal Blank with the appropriate instructions and crosschecks. It adds crosschecks to the Health Blank Analysis of Operations by Lines of Business to the Life/Fraternal Analysis of Operations by Lines of Business – Accident and Health instructions.

Hearing no objection from the Blanks (E) Working Group, the proposal was exposed for a public comment period ending March 4, 2022.

d. Agenda Item 2021-18BWG

Ms. Walker stated that this proposal modifies the Life Insurance exhibit (State Page) to include the line of business detail reported on the Analysis of Operations by Lines of Business pages. Two new Schedule T style pages, Exhibit of Claims Settled During the Current Year and Policy Exhibit, are created to include detail captured by state on the existing Life Insurance exhibit (State Page) that could not be included due to space restrictions. It adds definitions for life and annuity products to the lines of business definitions in the health appendix.

Hearing no objection from the Blanks (E) Working Group, the proposal was exposed for a public comment period ending March 4, 2022.

e. Agenda Item 2021-19BWG

Mr. Drutz stated that this proposal adds columns and lines to Underwriting and Investment Exhibits, Parts 1, 2, 2A, 2B, and 2D and the Exhibit of Premiums, Enrollment, and Utilization in the annual statement, bringing the lines of business reporting in line with Life/Fraternal and P/C. It adds columns and lines to the Exhibit of Premiums, Enrollment, and Utilization and Underwriting and Investment analysis of Claims Unpaid quarterly pages. The appropriate adjustments to the instructions are also being made.

Hearing no objection from the Blanks (E) Working Group, the proposal was exposed for a public comment period ending March 4, 2022.

f. Agenda Item 2021-20BWG

Mr. Garn stated that this proposal, beginning at line 72 of the Life/Fraternal Five-Year Historical, adds or deletes lines that do not pull in the specific lines of business reported on the Life/Fraternal Analysis of Operations by Lines of Business detail pages for life (individual and group), annuities (individual and group), and Accident and Health for line 33 of those pages.

Hearing no objection from the Blanks (E) Working Group, the proposal was exposed for a public comment period ending March 4, 2022.

g. Agenda Item 2021-21BWG

Mr. Bruggeman stated that this blanks proposal is sponsored by the Statutory Accounting Principles (E) Working Group and coincides with the revisions adopted at its Nov. 10 meeting to clarify the reporting of residual tranches. He stated that a residual tranche, pursuant to the definition adopted in *SSAP No. 43R—Loan-Backed and Structured Securities*, intends to capture securitization tranches and beneficial interests as well as other structures captured in scope of SSAP No. 43R, that reflect loss layers without any contractual payments, whether principal or interest, or both. He stated that payments to holders of these

investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment's duration and not just at maturity, such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.

Mr. Bruggeman stated that the revisions adopted by the Statutory Accounting Principles (E) Working Group at its Nov. 10 meeting confirm that residual tranches, although in scope of SSAP No. 43R, are required to be reported on Schedule BA and not Schedule D Part 1 beginning Dec. 31, 2022. This guidance permits reporting entities to continue reporting residual tranches on Schedule BA and permits entities that have historically reported on Schedule D Part 1, to move residual tranches to Schedule BA in advance of the effective date.

Mr. Bruggeman stated that this blanks proposal requests the establishment of specific reporting lines on Schedule BA to capture residual tranches for year-end 2022. As detailed in the proposal, it is requested that reporting lines separate residual tranches based on the type of underlying characteristics of fixed income, common stock, real estate, mortgage loans, or other. These categories are consistent with what is used for investments in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*.

Mr. Bruggeman stated that reporting entities that already report residual tranches on Schedule BA are permitted to continue using the prior reporting location already utilized, and entities that elect to move residual tranches to Schedule BA for year-end 2021 are also permitted to utilize the reporting line currently available on Schedule BA in determining the best reporting location based on the characteristics of the instrument. Effective Dec. 31, 2022, all residual tranches will be expected to be captured on the distinct reporting lines created for these items.

Mr. Bruggeman stated that the blanks proposal included in the meeting materials was developed before the adoption of agenda item 2021-15 by the Statutory Accountings Principles (E) Working Group. With adoption, the Working Group considered industry-requested editorial changes to the SSAP No. 43R definition of residual tranches. These revisions include deleting the reference to "non-rated" when describing residual interests and the removal of "interests of structured finance investments" from the definition. These revisions are considered editorial in nature, and it is requested that corresponding edits be reflected in the blanks proposal prior to exposure.

Hearing no objection from the Blanks (E) Working Group, the proposal was exposed for a public comment period ending March 4, 2022.

#### 7. Adopted the Editorial Listing

Mr. Hudson made a motion, seconded by Ms. Gosselin, to adopt the Blanks (E) Working Group editorial listing (Attachment Two-B). The motion passed unanimously.

#### 8. Approved the State Filing Checklists

Ms. Greiner made a motion, seconded by Ms. Doggett, to approve the State Filing Checklist templates (Attachment Two-C). The motion passed unanimously.

#### 9. Discussed Other Matters

Mr. Tipton stated that there is a group of interested parties, especially on the health side, evaluating what is perceived to be a redundancy of health data, not only within the life blank but also in the P/C and health blanks. This group is putting together a document to begin this discussion between industry and state insurance regulators.

Mr. Bruggeman referenced a Nov. 10 memorandum from the Statutory Accounting Principles (E) Working Group and Valuation of Securities (E) Task Force to the Blanks (E) Working Group intending to notify the Blanks (E) Working Group and interested parties on the reporting of residual tranches retained on Schedule D-1: Long-Term Bonds for year-end 2021. As part of the bond proposal project, it was identified that there is inconsistency in practice with how residual tranches or interests are reported within the investment schedules, with some entities reporting on Schedule BA: Other Invested Assets and other entities reporting on Schedule D-1, with either a self-assigned NAIC 5GI or NAIC 6 designation. The Working Group confirmed with the Securities Valuation Office (SVO) that use of the NAIC 5GI process for residual tranches is an inaccurate application, and residual tranches or interests reported on Schedule D-1 shall be reported with an NAIC 6 designation.

The NAIC 5GI process, noted in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), permits entities to self-assign an NAIC 5 when they can certify the following three components: 1) documentation necessary to permit a full credit analysis of the security does not exist, or an NAIC credit rating provider (CRP) rating for a filing exempt (FE) or private letter (PL) security is not available; 2) the issuer or obligor is current on all contracted interest and principal payments; and 3) the insurer has an actual expectation of ultimate payment of all contracted interest and principal payments. Mr. Bruggeman stated that use of the NAIC 5GI process for residual investments is an incorrect application of the guidance, as: 1) there are no contracted interest and principal payments to certify as current; and 2) the insurer cannot have an actual expectation of receiving all contractual principal and interest of the underlying collateral, as these tranches absorb the losses first for the securitization structure. Although cash flows may pass through to these holders at periodic intervals in the waterfall, ultimate returns depend on continued performance; therefore, there can be no actual expectation that future payments will be received. The Valuation of Securities (E) Task Force is currently incorporating edits to mitigate future misapplication of the NAIC 5GI process for residual tranches.

Mr. Bruggeman stated that although the action taken by the Statutory Accounting Principles (E) Working Group will require residual tranches or interests to be reported on Schedule BA for year-end 2022, these items can be retained on Schedule D Part 1 for year-end 2021. However, if retained on Schedule D Part 1, the reporting entity should record an NAIC 6 designation.

Mr. Garn stated that he would be resigning his position as chair of the Blanks (E) Working Group, effective Dec. 31. He stated that after serving a 14-year term, it is time for someone new to assume the chair position. He named his replacement as Ms. Gosselin.

Having no further business, the Blanks (E) Working Group adjourned.

[Att Two\\_BWG 11.16.2021 Minutes.docx](#)

## NAIC BLANKS (E) WORKING GROUP

### Blanks Agenda Item Submission Form

<p style="text-align: right;"><b>DATE:</b> <u>04/19/2021</u></p> <p><b>CONTACT PERSON:</b> _____</p> <p><b>TELEPHONE:</b> _____</p> <p><b>EMAIL ADDRESS:</b> _____</p> <p><b>ON BEHALF OF:</b> _____</p> <p><b>NAME:</b> <u>Shawn Frederick</u></p> <p><b>TITLE:</b> <u>Assistant Chief Examiner</u></p> <p><b>AFFILIATION:</b> <u>Texas Department of Insurance</u></p> <p><b>ADDRESS:</b> _____</p>	<p style="text-align: center;"><b><u>FOR NAIC USE ONLY</u></b></p> <p>Agenda Item # <u>2021-14BWG MOD</u></p> <p>Year <u>2022</u></p> <p>Changes to Existing Reporting <input checked="" type="checkbox"/> [ X ]</p> <p>New Reporting Requirement <input type="checkbox"/> [ ]</p> <hr/> <p style="text-align: center;"><b><u>REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</u></b></p> <p>No Impact <input checked="" type="checkbox"/> [ X ]</p> <p>Modifies Required Disclosure <input type="checkbox"/> [ ]</p> <hr/> <p style="text-align: center;"><b><u>DISPOSITION</u></b></p> <p><input type="checkbox"/> [ ] Rejected For Public Comment</p> <p><input type="checkbox"/> [ ] Referred To Another NAIC Group</p> <p><input type="checkbox"/> [ ] Received For Public Comment</p> <p><input checked="" type="checkbox"/> [ X ] Adopted Date <u>11/16/2021</u></p> <p><input type="checkbox"/> [ ] Rejected Date _____</p> <p><input type="checkbox"/> [ ] Deferred Date _____</p> <p><input type="checkbox"/> [ ] Other (Specify) _____</p>
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### BLANK(S) TO WHICH PROPOSAL APPLIES

- |   |  |   |
|---|--|---|
| <input checked="" type="checkbox"/> [ X ] ANNUAL STATEMENT                  | <input checked="" type="checkbox"/> [ X ] INSTRUCTIONS | <input checked="" type="checkbox"/> [ X ] CROSSCHECKS |
| <input type="checkbox"/> [ ] QUARTERLY STATEMENT                            | <input checked="" type="checkbox"/> [ X ] BLANK        |   |
| <input checked="" type="checkbox"/> [ X ] Life, Accident & Health/Fraternal | <input type="checkbox"/> [ ] Separate Accounts         | <input type="checkbox"/> [ ] Title                    |
| <input checked="" type="checkbox"/> [ X ] Property/Casualty                 | <input type="checkbox"/> [ ] Protected Cell            | <input type="checkbox"/> [ ] Other _____              |
| <input type="checkbox"/> [ ] Health   | <input type="checkbox"/> [ ] Health (Life Supplement)  |   |

Anticipated Effective Date: Annual 2022

### IDENTIFICATION OF ITEM(S) TO CHANGE

Expanded the number of lines of business reported on Schedule H to match the lines of business reported on the Health Statement. Modified the instructions so they will be uniform between life/fraternal and property.

### REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE\*\*

The purpose of the proposal is to bring uniformity in the accident and health lines of business used on Schedule H with other schedules and exhibits in the annual statement.

### NAIC STAFF COMMENTS

Comment on Effective Reporting Date: \_\_\_\_\_

Other Comments:

**\*\* This section must be completed on all forms.**

**Revised 7/18/2018**

## ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

### SCHEDULE H

#### ACCIDENT AND HEALTH EXHIBIT

Life/Fraternal: “Appropriately” where used in the Instructions for Schedule H, means the appropriate accident and health portions of referenced data. Reconciliation with figures drawn from other parts of the statement may only be possible with respect to ~~Group Accident and Health (Column 3), Credit (Group and Individual) Accident and Health (Column 5) and Other Accident and Health (the combination of Columns 7 through 17), and, in some cases, may only be possible with respect to~~ Total Accident and Health (Column 1) of Schedule H – Accident and Health Exhibit.

For definitions of lines of business, see the appendix of these instructions.

All amounts reportable in Parts 1 through 3 are net of reinsurance ~~ceded~~, i.e., reinsurance assumed should be included, reinsurance ceded should be deducted, and net figures entered in the statement. Part 4, “Reinsurance,” displays the reinsurance assumed and ceded components.

~~Column 5 — Credit Accident and Health (Group and Individual)~~

~~Include: — Business not exceeding 120 months duration.~~

~~This column is not applicable to Fraternal Benefit Societies.~~

~~Column 7 — Collectively Renewable~~

~~Include: — Amounts pertaining to policies/certificates that are made available to groups of persons under a plan sponsored by an employer, or an association or a union of affiliated associations or unions, or a group of individuals supplying materials to a central point of collection or handling a common product or commodity, under which the reporting entity has agreed with respect to such policies/certificates that renewal will not be refused, subject to any specified age limit, while the reporting entity remains a member of the group specified in the agreement unless the reporting entity simultaneously refuses renewal to all other policies/certificates in the same group. A sponsored plan shall not include any arrangement where a reporting entity’s customary individual policies/certificates are made available without special underwriting considerations, and where the employer’s participation is limited to arranging for salary allotment premium payments with or without contribution by the employer. Such plans are sometimes referred to as payroll budget or salary allotment plans. A sponsored plan may be administered by an agent or trustee.~~

~~Amounts pertaining to policies/certificates issued by a company or group of companies under a plan, other than a group insurance plan, authorized by special legislation for the exclusive benefit of the aged through mass enrollment.~~

~~Amounts pertaining to policies/certificates issued under mass enrollment procedures to older people, such as those age 65 and over, in some geographic region or regions under which the reporting entity has agreed with respect to such policies/certificates that renewal will not be refused unless the reporting entity simultaneously refuses renewal to all other policies/certificates specified in the agreement.~~

~~Column 9 — Non-cancelable~~

~~Include: — Amounts pertaining to policies/certificates that are guaranteed renewable for life or to a specified age, such as 60 or 65, at guaranteed premium rates.~~

~~Column 11 — Guaranteed Renewable~~

~~Include: — Amounts pertaining to policies/certificates that are guaranteed renewable for life or to a specified age, such as 60 or 65, but under which the reporting entity reserves the right to change the scale of premium rates.~~

~~Column 13 — Non-renewable for Stated Reasons Only~~

~~Include: — Amounts pertaining to policies/certificates in which the reporting entity has reserved the right to cancel or refuse renewal for one or more stated reasons, but has agreed implicitly or explicitly that, prior to a specified time or age, it will not cancel or decline renewal solely because of deterioration of health after issue.~~

~~Column 17 — All Other~~

~~Include: — Any other accident and health coverages not specifically required in other columns. All Medicare Part D Prescription Drug Coverage, whether sold on a stand-alone basis or through a Medicare Advantage product and whether sold directly to an individual or through a group.~~

### **PART 1 – ANALYSIS OF UNDERWRITING OPERATIONS**

In each % column of Part 1, show the percentage of Line 2 for Lines 3 through 14 inclusive.

Line 1 — Premiums Written

Life/Fraternal: Column 1 should agree with Schedule T, Column 4 Line 97 minus Line 98 if prepared on a written basis.

Property: Column 1 should agree with Underwriting and Investment Exhibit, Part 1B sum of Lines 13 through 15 (Column 1 + 2 + 3).

Columns 3, 5, 7, 9, 11, 13, 15, 17, 19, 21, 23 and 25 should agree with Underwriting and Investment Exhibit, Part 1B Column 1 + 2 + 3 Lines 13.1, 13.2, 14, 15.1, 15.2, 15.3, 15.4, 15.5, 15.6, 15.7, 15.8 and 15.9 respectively.

~~Should agree with “Total (All Business) minus Reinsurance Ceded” Line of Column 4, Schedule T, if prepared on a written basis.~~

Line 2 — Premiums Earned

Refer to *SSAP No. 54R—Individual and Group Accident and Health Contracts* for accounting guidance.

Should agree with Line 1 plus the change in unearned premiums and reserve for rate credits included in Part 2, Section A.



Line 3 – Incurred Claims

Report cash settlements during the year plus the change in claim liabilities, reserves and amounts recoverable from reinsurers.

Life/Fraternal: Should agree appropriately with both Exhibit 8, Part 2, Line 6.4 and also with Analysis of Operations by Lines of Business – Summary, Column 6, Line 13, in each case adjusted for the change in Exhibit 6 of Aggregate Accident and Health Reserves, Line 16 reserves.

Property: Column 1 should agree with Underwriting and Investment Exhibit, Part 2 sum of Lines 13 through 15 (Column 7).

Should agree with Schedule H, Part 2, Section C, Line 3; plus Schedule H, Part 3, Line 1.1; plus Schedule H, Part 3, Line 1.2.

Line 4 – Cost Containment Expenses

Report cost containment expenses in accordance with *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*.

Life/Fraternal: Should agree with Exhibit 2, Column 2, Line 10.

Property: Column 1 (Line 4 plus Line 8) should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29) sum of Lines 13 through 15.

Column 3 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 13.1.

Column 5 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 13.2.

Column 7 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.4.

Column 9 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.15

Column 11 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.2.

Column 13 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.8.

Column 15 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.6.

Column 17 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.5.

Column 19 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 14.

Column 21 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.3.

Column 23 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.7.

Column 25 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.9.

Line 5 – Incurred Claims and Cost Containment Expenses

Should agree with the sum of Lines 3 and 4.

Line 6 – Increase in Contract Reserves

Should agree with Part 2, Section B, Line 5.

Line 7 – Commissions

Report incurred commissions and expense allowances on reinsurance.

Life/Fraternal: Should agree appropriately with the net of Exhibit 1, Part 2, Line 31 minus Line 26.3 and also with the net of Analysis of Operations by Lines of Business – Summary, Column 6, Line 21 plus Line 22, minus Line 6, Accident and Health columns.

Property: Column 1 should agree with Insurance Expense Exhibit, Part II sum of Lines 13 through 15 (Column 23).

Column 3 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 13.1.

Column 5 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 13.2.

Column 7 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.4.

Column 9 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.1.

Column 11 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.2.

Column 13 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.8.

Column 15 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.6.

Column 17 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.5.

Column 19 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 14.

Column 21 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.3.

Column 23 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.7.

Column 25 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.9.

Line 8 – Other General Insurance Expenses

Report general insurance expenses incurred and provision for claim expenses incurred in connection with pending and incurred but unreported claims not included in Cost Containment Expenses on Line 4 above.

Life/Fraternal: Should agree appropriately with Exhibit 2, Column 3, Line 10.

Line 9 – Taxes, Licenses and Fees

Report total taxes (excluding federal income taxes) plus state insurance department licenses and fees.

Life/Fraternal: Should agree appropriately with Exhibit 3, Column 2, Line 7 and also with Analysis of Operations by Lines of Business – Summary, Column 6, Line 24, Accident and Health columns.

Property: Column 1 should agree with Insurance Expense Exhibit, Part II sum of Lines 13 through 15 (Column 25).

Column 3 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 13.1.

Column 5 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 13.2.

Column 7 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.4.

Column 9 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.15.

Column 11 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.2.

Column 13 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.8.

Column 15 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.6.

Column 17 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.5.

Column 19 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 14.

Column 21 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.3.

Column 23 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.7.

Column 25 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.9.

Line 10 – Total Other Expenses Incurred

Sum of Lines 7, 8 and 9.

Line 11 – Aggregate Write-ins for Deductions

Enter the total of the write-ins listed in schedule “Details of Write-ins Aggregated at Line 11 for Deductions.”

Line 12 – Gain from Underwriting Before Dividends or Refunds

Report premiums earned less incurred claims, less increase in policy reserves and less total expenses incurred. Line 2 less the sum of Lines 5, 6, 10 and 11.

Line 13 – Dividends or Refunds

Life/Fraternal: Should agree appropriately with Analysis of Operations by Lines of Business – Summary, Column 6, Line 30, Accident and Health columns, and also with Exhibit 4, Dividends or Refunds, Column 2, Line 17.

Property: Column 1 should agree with Insurance Expense Exhibit, Part II sum of Lines 13 through 15 (Column 5).

Column 3 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 13.1.

Column 5 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 13.2.

Column 7 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.4.

Column 9 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.15.

Column 11 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.2.

Column 13 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.8.

Column 15 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.6.

Column 17 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.5.

Column 19 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 14.

Column 21 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.3.

Column 23 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.7.

Column 25 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.9.

Line 14 – Gain From Underwriting After Dividends or Refunds  
Line 12 minus Line 13.

#### Details of Write-ins Aggregated on Line 11 for Deductions

List separately all deductions for which there is no pre-printed line on Schedule H – Part 1.

Include: Group conversions, transfers on account of group package policies and contracts, etc.

**PART 2 – RESERVES AND LIABILITIES**

**SECTION A – PREMIUM RESERVES**

- Line 1 – Unearned Premiums  
Life/Fraternal: Should agree appropriately with Exhibit 6, Line 1, net of applicable reinsurance ceded.
- Line 2 – Advance Premiums  
Life/Fraternal: Should agree appropriately with the sum of Exhibit 1, Part 1, Lines 4 and 14.  
Property: Column 1 should agree with Underwriting and Investment Exhibit, Part 1A, Column 1 plus Column 2, sum of Lines 13, 14 and 15.
- Line 3 – Reserve for Rate Credits  
Life/Fraternal: Should agree appropriately with the net of Exhibit 6, Line 5, net of applicable reinsurance ceded, plus Page 3, Line 9.2 parenthetical amount #1 minus Page 2, Line 15.3, Column 3, accident and health portion.

**Not applicable to Fraternal Benefit Societies.**

- Property: Column 1 should agree with Underwriting and Investment Exhibit, Part 1A, Column 4, sum of Lines 13, 14 and 15.
- Column 2 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 13.1.
- Column 3 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 13.2.
- Column 4 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.4.
- Column 5 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.15.
- Column 6 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.2.
- Column 7 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.8.
- Column 8 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.6.
- Column 9 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.5.
- Column 10 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 14.

Column 11 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.3.

Column 12 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.7.

Column 13 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.9.

Line 4 – Total Premium Reserves, Current Year  
Sum of Lines 1, 2 and 3.

Line 5 – Total Premium Reserves, Prior Year  
Line 4 from prior year. (For 2022 this only applies to Column 1. For 2023 it applies to all columns.)

Line 6 – Increase in Total Premium Reserves  
Line 4 minus Line 5.

#### **SECTION B – CONTRACT RESERVES**

Line 1 – Additional Reserves  
  
Refer to *SSAP No. 54R—Individual and Group Accident and Health Contracts* for accounting guidance.

Include: Premium deficiency reserve.

Companies must carry a reserve in this line for any policy or block of policies:

- (i) With which level premiums are used, or
- (ii) With respect to which, due to the gross premium structure at issue, the value of future benefits exceeds the value of appropriate future valuation net premiums.

Companies must carry a reserve for any block of contracts for which future gross premiums when reduced by expenses for administration, commissions, and taxes will be insufficient to cover future claims or services.

Line 2 – Reserve for Future Contingent Benefits

Companies must carry a reserve on this line that provides for the extension of benefits after termination of the policy or of any insurance thereunder. Such benefits, that actually accrue and are payable at some future date, are predicated on a condition or actual disability that exists at the termination of the insurance and that is usually not known to the insurance company. These benefits are normally provided by contract provision but may be payable because of court decisions or of departmental rulings.

An example of the type of benefit for which a reserve must be carried is the coverage for hospital confinement after the termination of an employee's certificate but prior to the expiration of a stated period. This example is illustrative only and is not intended to limit the reserve to the benefits

described. Some individual Accident and Health policies may also provide benefits similar to those under the “Extension of Benefits” section of a group policy.

Line 3 – Total Contract Reserves, Current Year  
Sum of Lines 1 and 2.

Line 4 – Total Contract Reserves, Prior Year  
Line 3 from prior year. [\(For 2022 this only applies to Column 1. For 2023 it applies to all columns.\)](#)

Line 5 – Increase in Contract Reserves  
Line 3 minus Line 4.

### **SECTION C – CLAIM RESERVES AND LIABILITIES**

Line 1 – Total Current Year  
[Life/Fraternal:](#) Should agree appropriately with the sum of Exhibit 6, Line 16 and Exhibit 8, Part 1, Line 4.4.

[Property:](#) [Column 1 should agree with Underwriting and Investment Exhibit, Part 2 sum of Lines 13 through 15 \(Column 5\).](#)

Also should agree with Part 3, Line 2.1 plus Part 3, Line 2.2 below.

Line 2 – Total Prior Year  
Line 1 from prior year. [\(For 2022 this only applies to Column 1. For 2023 it applies to all columns.\)](#)  
Should agree with Part 3, Line 3.2 below.

[Property:](#) [Column 13 should agree with Underwriting and Investment Exhibit, Part 2, Column 6, sum of Lines 13, 14 and 15.](#)

Line 3 – Increase  
Line 1 minus Line 2.



**PART 3 – TEST OF PRIOR YEAR’S CLAIM RESERVES AND LIABILITIES**

Lines 1.1  
and 1.2

– Claims Paid During the Year on Claims Incurred Prior to and During Current Year

Represents net payments made during the year less the change in amounts still recoverable from reinsurance.

Life/Fraternal: The sum of Lines 1.1 and 1.2 should agree appropriately with Exhibit 8, Part 2, Lines 1.4 minus Line 3 plus Line 5.

Lines 2.1, 2.2  
and 3.2

– Claim Reserves and Liabilities, December 31 on Claims Incurred Prior to and During Current Year.

The sum of Lines 2.1 and 2.2 should equal Line C1 of Part 2 of this schedule and Line 3.2 should equal Line C2 of Part 2 of this Schedule. Line 3.3 represents the result of the test for adequacy of claim provisions. A negative figure will normally indicate a favorable reserve development.

**PART 4 – REINSURANCE**

Represents the reinsurance assumed and ceded components of Part 1, Lines 1, 2, 3 and 7 of this schedule.

**SECTIONS A AND B**

Line 2 – Premiums Earned

Premiums earned are before adjustment for the increase in policy reserves that has been treated as a separate deduction.

**~~SECTION A – REINSURANCE ASSUMED~~**

~~Line 2~~ – ~~Premiums Earned~~

~~Premiums earned are before adjustment for the increase in policy reserves that has been treated as a separate deduction.~~

**~~SECTION B – REINSURANCE CEDED~~**

~~Line 2~~ – ~~Premiums Earned~~

~~Premiums earned are before adjustment for the increase in policy reserves that has been treated as a separate deduction.~~

**PART 5 – HEALTH CLAIMS**

Companies with less than 5% of premiums in Accident and Health business should not complete this schedule.

~~Column 3 — Other~~

~~Include: All Medicare Part D Prescription Drug Coverage, whether sold on a stand-alone basis or through a Medicare Advantage product and whether sold directly to an individual or through a group.~~

**A. DIRECT**

Line 1 – Incurred Claims

Should agree with Line 3 plus Line 4 minus Line 2.

Line 2 – Beginning Claim Reserves and Liabilities

Life/Fraternal: Column 13 Should agree with Exhibit 8, Part 2, Line 4.1, sum of Columns 9, 10 and 11, plus direct portion of Exhibit 6, Line 14, Column 1, Prior Year.

Line 3 – Ending Claim Reserves and Liabilities

Life/Fraternal: Column 13 Should agree with Exhibit 8, Part 2, Line 2.1, sum of Columns 9, 10 and 11, plus direct portion of Exhibit 6, Line 14, Column 1.

Line 4 – Claims Paid

Life/Fraternal: Column 13 Should agree with Exhibit 8, Part 2, Line 1.1, sum of Columns 9, 10 and 11.

Property: Column 13 should agree with Underwriting and Investment Exhibit, Part 2, Column 1, sum of Lines 13, 14 and 15.

Column 1 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 13.1.

Column 2 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 13.2.

Column 3 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 15.4.

Column 4 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 15.15.

Column 5 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 15.2.

Column 6 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 15.8.

Column 7 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 15.6.

Column 8 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 15.5.

Column 9 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 14.

Column 10 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 15.3.

Column 11 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 15.7.

Column 12 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines 15.9.

**B. ASSUMED REINSURANCE**

Line ~~15~~ – Incurred Claims

Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 should ~~Should~~ agree with Schedule H, Part 4, Line A3, Columns 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 1, respectively.

Should also agree with Line ~~37~~ plus Line ~~48~~, minus Line ~~26~~.

Line ~~26~~ – Beginning Claim Reserves and Liabilities

Life/Fraternal: Column 13 ~~S~~ should agree with Exhibit 8, Part 2, Line 4.2, sum of Columns 9, 10 and 11 plus assumed portion of Exhibit 6, Line 14, Column 1, Prior Year.

Line ~~37~~ – Ending Claim Reserves and Liabilities

Life/Fraternal: Column 13 ~~S~~ should agree with Exhibit 8, Part 2, Line 2.2, sum of Columns 9, 10 and 11, plus assumed portion of Exhibit 6, Line 14, Column 1.

Line ~~48~~ – Claims Paid

Life/Fraternal: Column 13 ~~S~~ should agree with Exhibit 8, Part 2, Line 1.2, sum of Columns 9, 10 and 11.

Property: Column 13 should agree with Underwriting and Investment Exhibit, Part 2, Column 2, sum of Lines 13, 14 and 15.

Column 1 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 13.1.

Column 2 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 13.2.

Column 3 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 15.4.

Column 4 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 15.15

Column 5 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 15.2.

Column 6 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 15.8.

Column 7 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 15.6.

Column 8 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 15.5.

Column 9 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 14.

Column 10 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 15.3.

Column 11 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 15.7.

Column 12 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 15.9.

**C. CEDED REINSURANCE**

Line ~~19~~ – Incurred Claims

Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 should ~~Should~~ agree with Schedule H, Part 4, Line B3, Columns ~~2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 1, respectively.~~

Should also agree with Line ~~113~~, plus Line ~~124~~, minus Line ~~102~~.

Line ~~210~~ – Beginning Claim Reserves and Liabilities

Include: Amounts recoverable from reinsurers.

Life/Fraternal: Column 13 ~~S~~ should agree with Exhibit 8, Part 2, Line 4.3, plus Line 5, sum of Columns 9, 10 and 11, plus Exhibit 6, Line 15, Column 1, Prior Year.

Line ~~311~~ – Ending Claim Reserves and Liabilities

Include: Amounts recoverable from reinsurers.

Life/Fraternal: Column 13 ~~S~~ should agree with Exhibit 8, Part 2, Line 2.3, plus Line 3, sum of Columns 9, 10 and 11, plus Exhibit 6, Line 15, Column 1.

Line ~~412~~ – Claims Paid

Life/Fraternal: Column 1 ~~S~~ should agree with Exhibit 8, Part 2, Line 1.3, sum of Columns 9, 10 and 11.

Property: Column 13 should agree with Underwriting and Investment Exhibit, Part 2, Column 3, sum of Lines 13, 14 and 15.

Column 1 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 13.1.

Column 2 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 13.2.

Column 3 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.4.

Column 4 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.15

Column 5 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.2.

Column 6 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.8.

Column 7 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.6.

Column 8 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.5.

Column 9 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 14.

Column 10 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.3.

Column 11 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.7.

Column 12 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.9.

**D. NET**

Line ~~143~~ Incurred Claims

Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 should ~~Should~~ agree with Schedule H, Part 1, Line 3, Columns 3, 5, 7, 9, 11, 13, 15, 17, 19, 21, 23, 25 and 1.

Should also agree with Line ~~153~~, plus Line ~~164~~, minus Line ~~142~~.

Line ~~244~~ Beginning Claim Reserves and Liabilities

Life/Fraternal: Column 13 ~~S~~ should agree with Schedule H, Part 2, Line C2, Column 1, minus Exhibit 8, Part 2, Line 5, sum of Columns 9, 10 and 11.

Property: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 should agree with Schedule H, Part 2, Line C2, Columns 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 1, respectively.

Line ~~345~~ Ending Claim Reserves and Liabilities

Exclude: Amounts recoverable from reinsurers.

Life/Fraternal: Column 13 ~~S~~ should agree with Schedule H, Part 2, Line C1, Column 1, minus Exhibit 8, Part 2, Line 3, sum of Columns 9, 10 and 11.

Property: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 should agree with Schedule H, Part 2, Line C1, Columns 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 1, respectively.

Line ~~416~~ Claims Paid

Life/Fraternal: Column 13 Should agree with Exhibit 8, Part 2, Line 1.4, sum of Columns 9, 10 and 11.

Property: Column 13 should agree with Underwriting and Investment Exhibit, Part 2, Column 4, sum of Lines 13, 14 and 15.

Column 1 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 13.1.

Column 2 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 13.2.

Column 3 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.4.

Column 4 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.5.

Column 5 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.2.

Column 6 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.8.

Column 7 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.6.

Column 8 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.5.

Column 9 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 14.

Column 10 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.3.

Column 11 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.7.

Column 12 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.9.

**E. NET INCURRED CLAIMS AND COST CONTAINMENT EXPENSES**

Line ~~147~~ Incurred Claims and Cost Containment Expenses

Should agree with Schedule H, Part 1, Line 5, ~~Column 1~~.

Line ~~248~~ Beginning Reserves and Liabilities

Life/Fraternal: ~~Column 13 S~~ should agree with Exhibit 2, Column 2, Line 11 plus Line ~~244~~ above.

Property: ~~Should agree with Underwriting and Investment Exhibit, Part 3, Column 1 (in part), plus Line 244 above.~~

Line ~~349~~ Ending Reserves and Liabilities

Life/Fraternal: ~~Column 13 S~~ should agree with Exhibit 2, Column 2, Line 12 plus Line ~~345~~ above.

Property: ~~Should agree with Underwriting and Investment Exhibit, Part 3, Column 1 (in part), plus Line 345 above.~~

Line ~~420~~ Paid Claims and Cost Containment Expenses

Line ~~471~~ plus Line ~~482~~ minus Line ~~493~~.

## ANNUAL STATEMENT INSTRUCTIONS –PROPERTY

### SCHEDULE H

#### ACCIDENT AND HEALTH EXHIBIT

Life/Fraternal: “Appropriately” where used in the Instructions for Schedule H, means the appropriate accident and health portions of referenced data. Reconciliation with figures drawn from other parts of the statement may only be possible with respect to ~~Group Accident and Health (Column 3), Credit (Group and Individual) Accident and Health (Column 5) and Other Accident and Health (the combination of Columns 7 through 17), and, in some cases, may only be possible with respect to~~ Total Accident and Health (Column 1) of Schedule H – Accident and Health Exhibit.

For definitions of lines of business, see the appendix of these instructions.

All amounts reportable in Parts 1 through 3 are net of reinsurance; (i.e., reinsurance assumed should be included, reinsurance ceded should be deducted, and net figures entered in the statement.) Part 4, Reinsurance displays the reinsurance assumed and ceded components.

~~Column 5 ——— Credit A & H (Group and Individual)~~

~~Include: ——— Business not exceeding 120 months duration.~~

~~Column 7 ——— Collectively Renewable~~

~~Include: ——— Amounts pertaining to policies that are made available to groups of persons under a plan sponsored by an employer, or an association or a union or affiliated associations or unions or a group of individuals supplying materials to a central point of collection or handling a common product or commodity, under which the reporting entity has agreed with respect to such policies that renewal will not be refused, subject to any specified age limit, while the insured remains a member of the group specified in the agreement unless the reporting entity simultaneously refuses renewal to all other policies in the same group. A sponsored plan shall not include any arrangement where a reporting entity's customary individual policies are made available without special underwriting considerations and where the employer's participation is limited to arranging for salary allotment premium payments with or without contribution by the employer. Such plans are sometimes referred to as payroll budget or salary allotment plans. A sponsored plan may be administered by an agent or trustee.~~

~~Amounts pertaining to policies issued by a company or group of companies under a plan, other than a group insurance plan, authorized by special legislation for the exclusive benefit of the aged through mass enrollment.~~

~~Amounts pertaining to policies issued under mass enrollment procedures to older people, such as those age 65 and over, in some geographic region or regions under which the reporting entity has agreed with respect to such policies that renewal will not be refused unless the reporting entity simultaneously refuses renewal to all other policies specified in the agreement.~~

~~Column 9 ——— Non-Cancelable~~

~~Include: ——— Amounts pertaining to policies, which are guaranteed renewable for life or to a specified age, such as 60 or 65, at guaranteed premium rates.~~



~~Column 11 ———— Guaranteed Renewable~~

~~Include: ———— Amounts pertaining to policies that are guaranteed renewable for life or to a specified age, such as 60 or 65, but under which the reporting entity reserves the right to change the scale of premium rates.~~

~~Column 13 ———— Non-Renewable for Stated Reasons Only~~

~~Include: ———— Amounts pertaining to policies in which the reporting entity has reserved the right to cancel or refuse renewal for one or more stated reasons, but has agreed implicitly or explicitly that, prior to a specified time or age, it will not cancel or decline renewal solely because of deterioration of health after issue.~~

~~Column 17 ———— All Other~~

~~Include: ———— Any other accident and health coverages not specifically required in other columns. All Medicare Part D Prescription Drug Coverage, whether sold on a stand-alone basis or through a Medicare Advantage product and whether sold directly to an individual or through a group.~~

**PART 1 – ANALYSIS OF UNDERWRITING OPERATIONS**

In each “%” column of Part 1, show the percentages of Line 2 for Lines 3 through 14 inclusive.

Line 1 ———— Premiums Written

Life/Fraternal: Column 1 should agree with Schedule T, Column 4 Line 97 minus Line 98 if prepared on a written basis.

Property: Column 1 should agree with Underwriting and Investment Exhibit, Part 1B sum of Lines 13 through 15 (Column 6).

~~Should agree appropriately with those shown in the Underwriting and Investment Exhibit, Part 1B.~~

Line 2 ———— Premiums Earned

Refer to *SSAP No. 54R—Individual and Group Accident and Health Contracts* for accounting guidance.

~~Should agree with Line 1 plus the change in unearned premiums and reserve for rate credits included in Part 2, Section A.~~

~~Should agree appropriately with those shown in the Underwriting and Investment Exhibit, Part 1.~~

Line 3 ———— Incurred Claims

Report cash settlements during the year plus the change in claim liabilities, reserves and amounts recoverable from reinsurers.

Life/Fraternal: Should agree appropriately with both Exhibit 8, Part 2, Line 6.4 and also with Analysis of Operations by Lines of Business – Summary, Column 6, Line 13, in each case adjusted for the change in Exhibit 6 of Aggregate Accident and Health Reserves, Line 16 reserves.

~~Should agree appropriately with losses incurred as shown in the Underwriting and Investment Exhibit, Part 2.~~

Property: Column 1 should agree with Underwriting and Investment Exhibit, Part 2 sum of Lines 13 through 15 (Column 7).

Should agree with Schedule H, Part 2, Section C, Line 3; plus Schedule H, Part 3, Line 1.1; plus Schedule H, Part 3, Line 1.2.

Line 4 – Cost Containment Expenses

Report cost containment expenses in accordance with SSAP No. 55—*Unpaid Claims, Losses and Loss Adjustment Expenses*.

Life/Fraternal: Should agree with Exhibit 2, Column 2, Line 10.

~~Line 4 plus Line 8 should agree appropriately with the sum of Columns 9, 11, 27 and 29 of the Insurance Expense Exhibit, Part II.~~

Property: Column 1 (Line 4 plus Line 8) should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and 29) sum of Lines 13 through 15.

Column 3 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and 29), Lines 13.1.

Column 5 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and 29), Lines 13.2.

Column 7 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and 29), Lines 15.4.

Column 9 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and 29), Lines 15.5.

Column 11 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and 29), Lines 15.2.

Column 13 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and 29), Lines 15.8.

Column 15 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and 29), Lines 15.6.

Column 17 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and 29), Lines 15.5.

Column 19 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 14.

Column 21 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.3.

Column 23 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.7.

Column 25 – Line 4 plus Line 8 should agree with the Insurance Expense Exhibit, Part II (Columns 9 + ~~Column 11~~ + ~~Column 27~~ and + 29), Lines 15.9.

Line 5 – Incurred Claims and Cost Containment Expenses

Sum of Lines 3 and 4.

Line 6 – Increase in Contract Reserves

Should agree with Schedule H, Part 2, Section B, Line 5.

Line 7 – Commissions

Report incurred commissions and expense allowances on reinsurance.

Life/Fraternal: Should agree appropriately with the net of Exhibit 1, Part 2, Line 31 minus Line 26.3 and also with the net of Analysis of Operations by Lines of Business – Summary, Column 6, Line 21 plus Line 22, minus Line 6, Accident and Health columns.

~~Should agree appropriately with Column 23 of Insurance Expense Exhibit, Part II.~~

Property: Column 1 should agree with Insurance Expense Exhibit, Part II sum of Lines 13 through 15 (Column 23).

Column 3 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 13.1.

Column 5 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 13.2.

Column 7 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.4.

Column 9 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.5.

Column 11 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.2.

Column 13 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.8.

Column 15 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.6.

Column 17 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.5.

Column 19 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 14.

Column 21 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.3.

Column 23 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.7.

Column 25 – Should agree with the Insurance Expense Exhibit, Part II, Column 23, Lines 15.9.

Line 8 – Other General Insurance Expenses

Report general insurance expenses incurred and provision for claim expenses incurred in connection with pending and incurred but unreported claims not included in Cost Containment Expenses on Line 4 above.

Life/Fraternal: Should agree appropriately with Exhibit 2, Column 3, Line 10.

~~Line 4 plus Line 8 should agree appropriately with the sum of Columns 9, 11, 27 and 29 of the Insurance Expense Exhibit, Part II.~~

Line 9 – Taxes, Licenses and Fees

Report total taxes (excluding federal income taxes) plus state insurance department licenses and fees.

Life/Fraternal: Should agree appropriately with Exhibit 3, Column 2, Line 7 and also with Analysis of Operations by Lines of Business – Summary, Column 6, Line 24, Accident and Health columns.

~~Should agree appropriately with Column 25 of the Insurance Expense Exhibit, Part II.~~

Property: Column 1 should agree with Insurance Expense Exhibit, Part II sum of Lines 13 through 15 (Column 25).

Column 3 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 13.1.

Column 5 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 13.2.

Column 7 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.4.

Column 9 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.5.1.

Column 11 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.2.

Column 13 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.8.

Column 15 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.6.

Column 17 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.5.

Column 19 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 14.

Column 21 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.3.

Column 23 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.7.

Column 25 – Should agree with the Insurance Expense Exhibit, Part II, Column 25, Lines 15.9.

Line 10 – Total Other Expenses Incurred

Sum of Lines 7, 8 and 9.

Line 11 – Aggregate Write-ins for Deductions

Enter the total of the write-ins listed in Schedule Detail of Write-ins Aggregated at Line 11 for Deductions.

Line 12 – Gain From Underwriting Before Dividends or Refunds

Report premiums earned less incurred claims, less increase in policy reserves and less total expenses incurred. Line 2 minus the sum of Lines 5, 6, 10 and 11.

Line 13 – Dividends or Refunds

Life/Fraternal: Should agree appropriately with Analysis of Operations by Lines of Business – Summary, Column 6, Line 30, Accident and Health columns, and also with Exhibit 4, Dividends or Refunds, Column 2, Line 17.

~~Should agree appropriately with Column 5 of the Insurance Expense Exhibit, Part II.~~

Property: Column 1 should agree with Insurance Expense Exhibit, Part II sum of Lines 13 through 15 (Column 5).

Column 3 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 13.1.

Column 5 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 13.2.

Column 7 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.4.

Column 9 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.5.

Column 11 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.2.

Column 13 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.8.

Column 15 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.6.

Column 17 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.5.

Column 19 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 14.

Column 21 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.3.

Column 23 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.7.

Column 25 – Should agree with the Insurance Expense Exhibit, Part II, Column 5, Lines 15.9.

Line 14 – Gain From Underwriting After Dividends or Refunds

Line 12 minus Line 13.

Details of Write-ins Aggregated at Line 11 for Deductions

List separately each category of deductions for which there is no pre-printed line on Schedule H, Part 1.

Include: Group conversions, transfers on account of group package policies and contracts, etc.

**PART 2 – RESERVES AND LIABILITIES**

**SECTION A – PREMIUM RESERVES**

~~Should agree appropriately with those in the Underwriting and Investment Exhibit, Part 1A minus amounts reported as contract reserves in Schedule H, Part 2, Section B, below.~~

Line 1 – Unearned Premiums

Life/Fraternal: Should agree appropriately with Exhibit 6, Line 1, net of applicable reinsurance ceded.

Property: Column 1 should agree with Underwriting and Investment Exhibit, Part 1A, Column 1 plus Column 2, sum of Lines 13, 14 and 15.

Line 2 – Advance Premiums

Life/Fraternal: Should agree appropriately with the sum of Exhibit 1, Part 1, Lines 4 and 14.

Line 3 – Reserve for Rate Credits

Life/Fraternal: Should agree appropriately with the net of Exhibit 6, Line 5, net of applicable reinsurance ceded, plus Page 3, Line 9.2 parenthetical amount #1 minus Page 2, Line 15.3, Column 3, accident and health portion.

**Not applicable to Fraternal Benefit Societies.**

Property: Column 1 should agree with Underwriting and Investment Exhibit, Part 1A, Column 4, sum of Lines 13, 14 and 15.

Column 2 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 13.1.

Column 3 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 13.2.

Column 4 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.4.

Column 5 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.5.

Column 6 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.2.

Column 7 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.8.

Column 98 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.6.

Column 9 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.5.

Column 10 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 14.

Column 11 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.3.

Column 12 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.7.

Column 13 – Should agree with the Underwriting and Investment Exhibit, Part 1A, Column 4, Lines 15.9.

Line 4 – Total Premium Reserves, Current Year  
Sum of Lines 1, 2 and 3.

Line 5 – Total Premium Reserves, Prior Year  
Line 4 from prior year. (For 2022 this only applies to Column 1. For 2023 it applies to all columns.)

Line 6 – Increase in Total Premium Reserves  
Line 4 minus Line 5.

### **SECTION B – CONTRACT RESERVES**

Line 1 – Additional Reserves

Refer to *SSAP No. 54R—Individual and Group Accident and Health Contracts* for accounting guidance.

Include: Premium deficiency reserve.

Companies must carry a reserve in this line for any policy or block of policies:

- (i) With which level premiums are used, or
- (ii) With respect to which, due to the gross premium structure at issue, the value of future benefits exceeds the value of appropriate future valuation net premiums.

Companies must carry a reserve for any block of contracts for which future gross premiums when reduced by expenses for administration, commissions, and taxes will be insufficient to cover future claims or services.

Line 2 – Reserve for Future Contingent Benefits

Companies must carry a reserve on this line that provides for the extension of benefits after termination of the policy or of any insurance thereunder. Such benefits, that actually accrue and are payable at some future date, are predicated on a condition or actual disability that exists at the termination of the insurance and that is usually not known to the insurance company. These benefits are normally provided by contract provision but may be payable because of court decisions or of departmental rulings.

An example of the type of benefit for which a reserve must be carried is the coverage for hospital confinement after the termination of an employee's certificate but prior to the expiration of a stated period. This example is illustrative only and is not intended to limit the reserve to the benefits described. Some individual Accident and Health policies may also provide benefits similar to those under the "Extension of Benefits" section of a group policy.



Line 3 – Total Contract Reserves, Current Year

Sum of Lines 1 and 2.

Line 4 – Total Contract Reserves, Prior Year

Line 3 from prior year. (For 2022 this only applies to Column 1. For 2023 it applies to all columns.)

Line 5 – Increase in Contract Reserves

Line 3 minus Line 4.

### **SECTION C – CLAIM RESERVES AND LIABILITIES**

Line 1 – Total Current Year

Life/Fraternal: Should agree appropriately with the sum of Exhibit 6, Line 16 and Exhibit 8, Part 1, Line 4.4.

Property: Column 1 should agree with Underwriting and Investment Exhibit, Part 2 sum of Lines 13 through 15 (Column 5).

~~Should agree appropriately with Net Losses Unpaid shown in the Underwriting and Investment Exhibit, Part 2, Column 5.~~

Also should agree with Schedule H, Part 3, Line 2.1; plus Schedule H, Part 3, Line 2.2 below.

Line 2 – Total Prior Year

Line 1 from prior year. (For 2022 this only applies to Column 1. For 2023 it applies to all columns.)

Should agree with Schedule H, Part 3, Line 3.2 below.

Property: Column 13 should agree with Underwriting and Investment Exhibit, Part 2, Column 6, sum of Lines 13, 14 and 15.

Line 3 – Increase

Line 1 minus Line 2.

**PART 3 – TEST OF PRIOR YEAR’S CLAIM RESERVES AND LIABILITIES**

- Lines 1.1 and 1.2 – Claims Paid During the Year on Claims Incurred Prior to and During Current Year
- Represents net payments made during the year less the change in amounts still recoverable from reinsurance.
- Life/Fraternal: The sum of Lines 1.1 and 1.2 should agree appropriately with Exhibit 8, Part 2, Lines 1.4 minus Line 3 plus Line 5.
- Lines 2.1, 2.2 and 3.2 – Claim Reserves and Liabilities, December 31 on Claims Incurred Prior to and During Current Year
- The sum of lines 2.1 and 2.2 should equal Line C1 of Part 2 of this schedule and Line 3.2 should equal Line C2 of Part 2 of this schedule. Line 3.3 represents the result of the test for adequacy of claim provisions. A negative figure will normally indicate a favorable reserve development.

**PART 4 – REINSURANCE**

Represents the reinsurance assumed and ceded components of Part 1, Lines 1, 2, 3 and 7 of this schedule.

**SECTIONS A AND B**

- Line 2 – Premiums Earned
- Premiums earned are before adjustment for the increase in policy reserves that has been treated as a separate deduction.

**PART 5 – HEALTH CLAIMS**

Companies with less than 5% of premiums in Accident and Health business should not complete this schedule.

~~Column 3 – Other~~

~~Include: All Medicare Part D Prescription Drug Coverage, whether sold on a stand-alone basis or through a Medicare Advantage product and whether sold directly to an individual or through a group.~~

**A. DIRECT**

Line 1 – Incurred Claims

Should agree with Line 3 plus Line 4 minus Line 2.

Line 2 – Beginning Claim Reserves and Liabilities

Life/Fraternal: Column 13 should agree with Exhibit 8, Part 2, Line 4.1, sum of Columns 9, 10 and 11, plus direct portion of Exhibit 6, Line 14, Column 1, Prior Year.

Line 3 – Ending Claim Reserves and Liabilities

Life/Fraternal: Column 13 ~~S~~ should agree with Exhibit 8, Part 2, Line 2.1, sum of Columns 9, 10 and 11, plus direct portion of Exhibit 6, Line 14, Column 1.

Line 4 – Claims Paid

Life/Fraternal: Column 13 ~~S~~ should agree with Exhibit 8, Part 2, Line 1.1, sum of Columns 9, 10 and 11.

Property: Column 13 ~~Should~~-should agree with Underwriting and Investment Exhibit, Part 2, Column 1, sum of Lines 13, 14 and 15.

Column 1 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~13~~ 13.1.

Column 2 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~13~~ 13.2.

Column 3 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~15~~ 15.4.

Column 4 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~15~~ 15.5.

Column 5 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~15~~ 15.2.

Column 6 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~15~~ 15.8.

Column 7 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~15~~ 15.6.

Column 8 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~15~~ 15.5.

Column 9 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~15~~ 14.

Column 10 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~15~~ 15.3.

Column 11 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~15~~ 15.7.

Column 12 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 1, Lines ~~15~~ 15.9.

**B. ASSUMED REINSURANCE**

Line ~~15~~ – Incurred Claims

Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 should ~~Should~~ agree with Schedule H, Part 4, Line A3, Columns ~~2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 1, respectively.~~

Should also agree with Line ~~37~~ plus Line ~~48~~, minus Line ~~26~~.

Line ~~26~~ – Beginning Claim Reserves and Liabilities

Life/Fraternal: ~~Column 13~~ ~~Should~~ agree with Exhibit 8, Part 2, Line 4.2, sum of Columns 9, 10 and 11 plus assumed portion of Exhibit 6, Line 14, Column 1, Prior Year.

Line ~~37~~ – Ending Claim Reserves and Liabilities

Life/Fraternal: ~~Column 13~~ ~~Should~~ agree with Exhibit 8, Part 2, Line 2.2, sum of Columns 9, 10 and 11, plus assumed portion of Exhibit 6, Line 14, Column 1.

Line ~~48~~ – Claims Paid

Life/Fraternal: ~~Column 13~~ ~~Should~~ agree with Exhibit 8, Part 2, Line 1.2, sum of Columns 9, 10 and 11.

Property: ~~Column 13~~ ~~Should~~ ~~should~~ agree with Underwriting and Investment Exhibit, Part 2, Column 2, sum of Lines 13, 14 and 15.

Column 1 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines ~~13.1~~.

Column 2 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines ~~13.2~~.

Column 3 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines ~~15.4~~.

Column 4 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines ~~15.5~~.

Column 5 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines ~~15.2~~.

Column 6 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines ~~15.8~~.

Column 7 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines ~~15.6~~.

Column 8 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines ~~15.5~~.

Column 9 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines ~~14~~.

Column 10 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines ~~15.3~~.

Column 11 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 15.7.

Column 12 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 2, Lines 15.9.

**C. CEDED REINSURANCE**

Line ~~19~~ – Incurred Claims

Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 should ~~Should~~ agree with Schedule H, Part 4, Line B3, Columns 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 1, respectively.

Should also agree with Line ~~244~~, plus Line ~~342~~, minus Line ~~240~~.

Line ~~240~~– Beginning Claim Reserves and Liabilities

Include: Amounts recoverable from reinsurers.

Life/Fraternal: Column 13 ~~S~~ should agree with Exhibit 8, Part 2, Line 4.3, plus Line 5, sum of Columns 9, 10 and 11, plus Exhibit 6, Line 15, Column 1, Prior Year.

Line ~~344~~– Ending Claim Reserves and Liabilities

Include: Amounts recoverable from reinsurers.

Life/Fraternal: Column 13 ~~S~~ should agree with Exhibit 8, Part 2, Line 2.3, plus Line 3, sum of Columns 9, 10 and 11, plus Exhibit 6, Line 15, Column 1.

Line ~~412~~ – Claims Paid

Life/Fraternal: Column 13 ~~S~~ should agree with Exhibit 8, Part 2, Line 1.3, sum of Columns 9, 10 and 11.

Property: Column 13 ~~Should~~–should agree with Underwriting and Investment Exhibit, Part 2, Column 3, sum of Lines 13, 14 and 15.

Column 1 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 13.1.

Column 2 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 13.2.

Column 3 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.4.

Column 4 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.51

Column 5 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.2.

Column 6 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.8.

Column 7 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.6.

Column 8 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.5.

Column 9 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 14.

Column 10 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.3.

Column 11 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.7.

Column 12 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 3, Lines 15.9.

**D. NET**

Line ~~143~~ Incurred Claims

Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 should agree with Schedule H, Part 1, Line 3, Columns 3, 5, 7, 9, 11, 13, 15, 17, 19, 21, 23, 25 and 1.

Should also agree with Line ~~345~~, plus Line ~~446~~, minus Line ~~244~~.

~~Should agree with Underwriting and Investment Exhibit, Part 2, Column 7, sum of Lines 13, 14 and 15 and Schedule H, Part 1, Line 3, Column 1.~~

Line ~~244~~ Beginning Claim Reserves and Liabilities

Life/Fraternal: Column ~~13~~ should agree with Schedule H, Part 2, Line C2, Column 1, minus Exhibit 8, Part 2, Line 5, sum of Columns 9, 10 and 11.

Property: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 should agree with Schedule H, Part 2, Line C2, Columns 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 1, respectively.

~~Should agree with Underwriting and Investment Exhibit, Part 2, Column 6, sum of Lines 13, 14 and 15 and Schedule H, Part 2, Line C2, Column 1.~~

Line ~~345~~ Ending Claim Reserves and Liabilities

Exclude: Amounts recoverable from reinsurers.

Life/Fraternal: Column ~~13~~ should agree with Schedule H, Part 2, Line C1, Column 1, minus Exhibit 8, Part 2, Line 3, sum of Columns 9, 10 and 11.

Property: Columns 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 should agree with Schedule H, Part 2, Line C1, Columns 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 1, respectively.

~~Should agree with Underwriting and Investment Exhibit, Part 2, Column 5, sum of Lines 13, 14 and 15 and Schedule H, Part 2, Line C1, Column 1.~~

Line ~~446~~ Claims Paid

Life/Fraternal: Column ~~13~~ should agree with Exhibit 8, Part 2, Line 1.4, sum of Columns 9, 10 and 11.

Property: Column 13 ~~Should~~-should agree with Underwriting and Investment Exhibit, Part 2, Column 4, sum of Lines 13, 14 and 15.

Column 1 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 13.1.

Column 2 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 13.2.

Column 3 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.4.

Column 4 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.5.

Column 5 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.2.

Column 6 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.8.

Column 7 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.6.

Column 8 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.5.

Column 9 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 14.

Column 10 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.3.

Column 11 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.7.

Column 12 – Should agree with the Underwriting and Investment Exhibit, Part 2, Column 4, Lines 15.9.

**E. NET INCURRED CLAIMS AND COST CONTAINMENT EXPENSES**

Line ~~1~~<sup>17</sup>– Incurred Claims and Cost Containment Expenses

Should agree with Schedule H, Part 1, Line 5, ~~Column 1~~.

Line ~~2~~<sup>18</sup>– Beginning Reserves and Liabilities

Life/Fraternal: Column 13 ~~S~~should agree with Exhibit 2, Column 2, Line 11 plus Line 14 above.

Property: Should agree with Underwriting and Investment Exhibit, Part 3, Column 1 (in part), plus Line 14 above.

Line ~~3~~<sup>19</sup>– Ending Reserves and Liabilities

Life/Fraternal: Column 13 ~~S~~should agree with Exhibit 2, Column 2, Line 12 plus Line 15 above.

Property: Should agree with Underwriting and Investment Exhibit, Part 3, Column 1 (in part), plus Line 15 above.

Line ~~420~~ Paid Claims and Cost Containment Expenses

Line ~~147~~ plus Line ~~248~~ minus Line ~~349~~.



## **UNDERWRITING AND INVESTMENT EXHIBIT**

### **PART 1 – PREMIUMS EARNED**

Column 1	–	Net Premiums Written
		The amounts reported for the lines in this column should agree with the amounts reported for the identical line in Column 6 of the Underwriting and Investment Exhibit, Part 1B.
Column 2	–	Unearned Premiums December 31 Prior Year
		The amounts reported for the lines in this column should agree with the amounts reported for the identical line in Column 3 of the prior year Underwriting and Investment Exhibit, Part 1.
Column 3	–	Unearned Premiums December 31 Current Year
		The amounts reported for the lines in this column should agree with the amounts reported for the identical line in Column 5 of the Underwriting and Investment Exhibit, Part 1A.
		Refer to <i>SSAP No. 53—Property-Casualty Contracts – Premiums</i> for accounting guidance.
Column 4	–	Premiums Earned During Year
		<u>Sum of Lines 13 through 15 should agree with Schedule H, Part 1, Column 1 (Line 2 minus Line 6).</u>
		<del>Line 13 ————— Should agree with Schedule H, Part 1, Line 2 — Line 6, Column 3.</del>
		<del>Line 14 ————— Should agree with Schedule H, Part 1, Line 2 — Line 6, Column 5.</del>
		<del>Line 15 ————— Should agree with Schedule H, Part 1, Line 2 — Line 6, Columns 7 through 17.</del>
		Line 35      –      Should agree with Page 4, Line 1, Column 1.
<u>Line 13.1</u>	–	<u>Comprehensive (Hospital and Medical) Individual</u>
		<u>Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 3.</u>
<u>Line 13.2</u>	–	<u>Comprehensive (Hospital and Medical) Group</u>
		<u>Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 5.</u>
<u>Line 14</u>	–	<u>Credit A&amp;H (Group and Individual)</u>
		<u>Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 19.</u>
<u>Line 15.1</u>	–	<u>Vision Only</u>
		<u>Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 9.</u>
<u>Line 15.2</u>	–	<u>Dental Only</u>
		<u>Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 11.</u>

Line 15.3 – Disability Income

Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 21.

Line 15.4 – Medicare Supplement

Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 7.

Line 15.5 – Medicaid Title XIX

Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 17.

Line 15.6 – Medicare Title XVIII

Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 15.

Line 15.7 – Long-Term Care

Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 23.

Line 15.8 – Federal Employees Health Benefits Plan Premium

Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 13.

Line 15.9 – Other Health

Column 4 should agree with Schedule H, Part 1, Line 2 minus Line 6, Column 25.

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 1A – RECAPITULATION OF ALL PREMIUMS**

**Detail Eliminated to Conserve Space**

Line 15 should include additional reserves on noncancelable accident and health policies.

Refer to *SSAP No. 54R—Individual and Group Accident and Health Contracts* for accounting guidance.

Attach to the annual statement a description of the methods used in computing this reserve for each type of coverage for which a reserve is held.

Line 13.1 – Comprehensive (Hospital and Medical) Individual ~~Group Accident and Health~~

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Column 2.

Line 13.2 – Comprehensive (Hospital and Medical) Group

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Column 3.

Line 14 – Credit Accident and Health

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Column ~~3~~10.

Column 4 should agree with Schedule H, Part 2, Line A3, Column ~~3~~10.

Include: Business not exceeding 120 months duration.

Line 15.1 – Vision Only ~~Other Accident and Health~~

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Columns ~~4 through 9~~5.

Line 15.2 – Dental Only

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Columns 6.

Line 15.3 – Disability Income

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Columns 11.

Line 15.4 – Medicare Supplement

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Columns 4.

Line 15.5 – Medicaid Title XIX

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Columns 9.

Line 15.6 – Medicare Title XVIII

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Columns 8.

Line 15.7 – Long-Term Care

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Columns 12.

Line 15.8 – Federal Employees Health Benefits Plan Premium

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Columns 7.

Line 15.9 – Other Health

Column 1 plus Column 2 should agree with Schedule H, Part 2, Line A1, Columns 13.

Line 34 – Aggregate Write-ins for Other Lines of Business

Enter the total of the write-ins listed in schedule Details of Write-ins Aggregated at Line 34 for Other Lines of Business.

Line 36 – Accrued Retrospective Premiums Based on Experience

Include: Accrued return retrospective premiums required by policy terms or law.

Accrued MLR Rebates per the Public Health Service Act.

**Retrospective Premium Adjustment Made Through Earned Premium:**

Enter the total gross accrued retrospective debit adjustment based on experience, included as a negative amount in Column 4 if the company accrues for additional retrospective premiums by adjusting earned premiums.

**Retrospective Premium Adjustment Made Through Written Premium:**

Enter the total gross accrued retrospective credit adjustments based on experience if the company accrues for additional retrospective premiums by adjusting written premiums.

Refer to *SSAP No. 66—Retrospectively Rated Contracts*. Per SSAP No. 66, retrospective premium adjustments shall be estimated based on the experience to date.

Details of Write-ins Aggregated at Line 34 for Other Lines of Business

List separately each line of business for which there is no pre-printed line on Underwriting and Investment Exhibit, Part 1A.

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 1B – PREMIUMS WRITTEN**

- Column 1 – Direct Business  
Line 35 should agree with Schedule T, Line 59, Column 2.
- Column 6 – Net Premiums Written  
Should agree with Underwriting and Investment Exhibit, Part 1, Column 1, for all lines.
- Line 13.1 – Comprehensive (Hospital and Medical) Individual ~~Group Accident and Health~~  
Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Column 2.  
Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Column 2.  
Column 6 should agree with Schedule H, Part 1, Line 1, Column 3.
- Line 13.2 – Comprehensive (Hospital and Medical) Group  
Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Column 3.  
Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Column 3.  
Column 6 should agree with Schedule H, Part 1, Line 1, Column 5.
- Line 14 – Credit Accident and Health  
Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Column ~~3~~10.  
Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Column ~~3~~10.  
Column 6 should agree with Schedule H, Part 1, Line 1, Column ~~5~~19.  
Include: Business not exceeding 120 months duration.
- Line 15.1 – Vision Only ~~Other Accident and Health~~  
Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Columns ~~4 through 9~~5.  
Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Columns ~~4 through 9~~5.  
Column 6 should agree with Schedule H, Part 1, Line 1, Columns ~~7 through 17~~9.
- Line 15.2 – Dental Only  
Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Columns 6.  
Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Columns 6.  
Column 6 should agree with Schedule H, Part 1, Line 1, Columns 11.
- Line 15.3 – Disability Income  
Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Columns 11.

Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Columns 11.

Column 6 should agree with Schedule H, Part 1, Line 1, Columns 21.

Line 15.4 – Medicare Supplement

Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Columns 4.

Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Columns 4.

Column 6 should agree with Schedule H, Part 1, Line 1, Columns 7.

Line 15.5 – Medicaid Title XIX

Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Columns 9.

Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Columns 9.

Column 6 should agree with Schedule H, Part 1, Line 1, Columns 17.

Line 15.6 – Medicare Title XVIII

Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Columns 8.

Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Columns 8.

Column 6 should agree with Schedule H, Part 1, Line 1, Columns 15.

Line 15.7 – Long-Term Care

Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Columns 12.

Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Columns 12.

Column 6 should agree with Schedule H, Part 1, Line 1, Columns 23.

Line 15.8 – Federal Employees Health Benefits Plan Premium

Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Columns 7.

Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Columns 7.

Column 6 should agree with Schedule H, Part 1, Line 1, Columns 13.

Line 15.9 – Other Health

Column 2 plus Column 3 should agree with Schedule H, Part 4, Line A1, Columns 13.

Column 4 plus Column 5 should agree with Schedule H, Part 4, Line B1, Columns 13.

Column 6 should agree with Schedule H, Part 1, Line 1, Columns 25.

Line 35 – Totals

Column 4 plus Column 5 should agree with Schedule F, Part 3, Column 6, Total multiplied by 1000.

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2 – LOSSES PAID AND INCURRED**

Refer to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* for accounting guidance.

Column 1 – Losses Paid Less Salvage – Direct Business

Line 35 should agree with Schedule T, Line 59, Column 5.

**Detail Eliminated to Conserve Space**

Column 5 – Net Losses Unpaid Current Year

The amounts reported for the lines in this column should agree with the amounts reported for the identical line in Column 8 of the Underwriting and Investment Exhibit, Part 2A.

Line 35 should agree with Page 3, Line 1, Column 1 and with Underwriting and Investment Exhibit, Part 2A, Line 35, Column 8.

[Sum of Lines 13, 14 and 15 should agree with. Schedule H, Part 3, Line 2.1 plus Line 2.2, Column 1](#)

**Detail Eliminated to Conserve Space**

Column 8 – Percentage of Losses Incurred

Percentages by line of business are calculated by dividing Column 7 of Underwriting and Investment Exhibit, Part 2, by Column 4 of Underwriting and Investment Exhibit, Part 1, and then multiplying by 100.

Line 13.1 – [Comprehensive \(Hospital and Medical\) Individual](#) ~~Group Accident and Health~~

Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Column 2.

Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Column 2.

Column 6 should agree with Schedule H, Part 2, Line C2, Column 2.

Column 7 should agree with Schedule H, Part 1, Line 3, Column 3.

[Line 13.2 – Comprehensive \(Hospital and Medical\) Group](#)

[Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Column 3.](#)

[Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Column 3.](#)

[Column 6 should agree with Schedule H, Part 2, Line C2, Column 3.](#)

[Column 7 should agree with Schedule H, Part 1, Line 3, Column 5.](#)

Line 14 – Credit Accident and Health

Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Column ~~3~~10.

Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Column ~~3~~10.

Column 6 should agree with Schedule H, Part 2, Line C2, Column ~~3~~10.

Column 7 should agree with Schedule H, Part 1, Line 3, Column ~~5~~9.

Include: Business not exceeding 120 months duration.

Line 15.1 – Vision Only ~~Other Accident and Health~~

Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Columns ~~4 through 9~~5.

Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Columns ~~4 through 9~~5.

Column 6 should agree with Schedule H, Part 2, Line C2, Columns ~~4 through 9~~5.

Column 7 should agree with Schedule H, Part 1, Line 3, Columns ~~7 through 17~~9.

Line 15.2 – Dental Only

Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Column 6.

Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Column 6.

Column 6 should agree with Schedule H, Part 2, Line C2, Column 6.

Column 7 should agree with Schedule H, Part 1, Line 3, Column 11.

Line 15.3 – Disability Income

Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Column 11.

Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Column 11.

Column 6 should agree with Schedule H, Part 2, Line C2, Column 11.

Column 7 should agree with Schedule H, Part 1, Line 3, Column 21.

Line 15.4 – Medicare Supplement

Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Column 4.

Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Column 4.

Column 6 should agree with Schedule H, Part 2, Line C2, Column 4.

Column 7 should agree with Schedule H, Part 1, Line 3, Column 7.

Line 15.5 – Medicaid Title XIX

Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Column 9.

Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Column 9.



Column 6 should agree with Schedule H, Part 2, Line C2, Column 9.

Column 7 should agree with Schedule H, Part 1, Line 3, Column 17.

Line 15.6 – Medicare Title XVIII

Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Column 8.

Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Column 8.

Column 6 should agree with Schedule H, Part 2, Line C2, Column 8.

Column 7 should agree with Schedule H, Part 1, Line 3, Column 15.

Line 15.7 – Long-Term Care

Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Column 12.

Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Column 12.

Column 6 should agree with Schedule H, Part 2, Line C2, Column 12.

Column 7 should agree with Schedule H, Part 1, Line 3, Column 23.

Line 15.8 – Federal Employees Health Benefits Plan Premium

Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Column 7.

Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Column 7.

Column 6 should agree with Schedule H, Part 2, Line C2, Column 7.

Column 7 should agree with Schedule H, Part 1, Line 3, Column 13.

Line 15.9 – Other Health

Column 4 should agree with Schedule H, Part 3, Line 1.1 plus Line 1.2, Column 13.

Column 5 should agree with Schedule H, Part 3, Line 2.1 plus Line 2.2, Column 13.

Column 6 should agree with Schedule H, Part 2, Line C2, Column 13.

Column 7 should agree with Schedule H, Part 1, Line 3, Column 25.

Line 34 – Aggregate Write-ins for Other Lines of Business

Enter the total of the write-ins listed in schedule Details of Write-ins Aggregated at Line 34 for Other Lines of Business.

Details of Write-ins Aggregated at Line 34 for Other Lines of Business

List separately each line of business for which there is no pre-printed line on Underwriting and Investment Exhibit, Part 2.

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 2A – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Refer to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* for accounting guidance.

		<b>Detail Eliminated to Conserve Space</b>	
Column 7	–	Incurred But Not Reported – Reinsurance Ceded	
		Line 35 (total) should agree with Schedule F, Part 3, Column 11, Total multiplied by 1000.	
Column 8	–	Net Losses Unpaid	
		<del>Line 13 should agree with Schedule H, Part 2, Line C1, Column 2.</del>	
		<del>Line 14 should agree with Schedule H, Part 2, Line C1, Column 3.</del>	
		<del>Line 15 should agree with Schedule H, Part 2, Line C1, Columns 4 through 9.</del>	
		Line 35 (total) should agree with Page 3, Line 1, Column 1.	
		Total on Line 35 to agree with Schedule P, Part 1, Summary, Column 35, Total multiplied by 1000.	
Column 9	–	Net Unpaid Loss Adjustment Expenses	
		Report loss adjustment expenses incurred by the reinsurer.	
		Line 35 (total) should agree with Page 3, Line 3, Column 1.	
		Total on Line 35 to agree with Schedule P, Part 1, Summary, Column 36, Total multiplied by 1000.	
<u>Line 13.1</u>	–	<u>Comprehensive (Hospital and Medical) Individual</u>	
		<u>Column 8 should agree with Schedule H, Part 2, Line C1, Column 2.</u>	
<u>Line 13.2</u>	–	<u>Comprehensive (Hospital and Medical) Group</u>	
		<u>Column 8 should agree with Schedule H, Part 2, Line C1, Column 3.</u>	
Line 14	–	Credit Accident and Health (Group and Individual)	
		<u>Column 8 should agree with Schedule H, Part 2, Line C1, Column 10.</u>	
		Include: Business not exceeding 120 months duration.	
<u>Line 15.1</u>	–	<u>Vision Only</u>	
		<u>Column 8 should agree with Schedule H, Part 2, Line C1, Columns 5.</u>	

Line 15.2 – Dental Only

Column 8 should agree with Schedule H, Part 2, Line C1, Columns 6.

Line 15.3 – Disability Income

Column 8 should agree with Schedule H, Part 2, Line C1, Columns 11.

Line 15.4 – Medicare Supplement

Column 8 should agree with Schedule H, Part 2, Line C1, Columns 4.

Line 15.5 – Medicaid Title XIX

Column 8 should agree with Schedule H, Part 2, Line C1, Columns 9.

Line 15.6 – Medicare Title XVIII

Column 8 should agree with Schedule H, Part 2, Line C1, Columns 8.

Line 15.7 – Long-Term Care

Column 8 should agree with Schedule H, Part 2, Line C1, Columns 12.

Line 15.8 – Federal Employees Health Benefits Plan Premium

Column 8 should agree with Schedule H, Part 2, Line C1, Columns 7.

Line 15.9 – Other Health

Column 8 should agree with Schedule H, Part 2, Line C1, Columns 13.

Line 34 – Aggregate Write-ins for Other Lines of Business

Enter the total of the write-ins listed in schedule Details of Write-ins Aggregated at Line 34 for Other Lines of Business.

Line 35 – Totals

Columns 1 plus Column 5 should agree with Schedule T, Line 59, Column 7.

Details of Write-ins Aggregated at Line 34 for Other Lines of Business

List separately each line of business for which there is no pre-printed line on Underwriting and Investment Exhibit, Part 2A.

**ANNUAL STATEMENT BLANK – LIFE\FRATERNAL AND PROPERTY**

**SCHEDULE H – ACCIDENT AND HEALTH EXHIBIT**

**PART 1 – ANALYSIS OF UNDERWRITING OPERATIONS**

	Total		Comprehensive (Hospital and Medical) Individual		Comprehensive (Hospital and Medical) Group		Medicare Supplement		Vision Only		Dental Only		Federal Employees Health Benefits Plan Premium	
	1 Amount	2 %	3 Amount	4 %	5 Amount	6 %	7 Amount	8 %	9 Amount	10 %	11 Amount	12 %	13 Amount	14 %
1. Premiums written.....		XXX		XXX		XXX		XXX		XXX		XXX		XXX
2. Premiums earned.....		XXX		XXX		XXX		XXX		XXX		XXX		XXX
3. Incurred claims.....														
4. Cost containment expenses.....														
5. Incurred claims and cost containment expenses (Lines 3 and 4).....														
6. Increase in contract reserves.....														
7. Commissions (a) .....														
8. Other general insurance expenses .....														
9. Taxes, licenses and fees.....														
10. Total other expenses incurred.....														
11. Aggregate write-ins for deductions.....														
12. Gain from underwriting before dividends or refunds .....														
13. Dividends or refunds .....														
14. Gain from underwriting after dividends or refunds .....														
<b><u>DETAILS OF WRITE-INS</u></b>														
1101. ....														
1102. ....														
1103. ....														
1198. Summary of remaining write-ins for Line 11 from overflow page .....														
1199. Total (Lines 1101 through 1103 plus 1198) (Line 11 above) .....														

	Medicare Title XVIII		Medicaid Title XIX		Credit A&H		Disability Income		Long-Term Care		Other Health	
	15 Amount	16 %	17 Amount	18 %	19 Amount	20 %	21 Amount	22 %	23 Amount	24 %	25 Amount	26 %
1. Premiums written.....		XXX		XXX		XXX		XXX		XXX		XXX
2. Premiums earned.....		XXX		XXX		XXX		XXX		XXX		XXX
3. Incurred claims.....												
4. Cost containment expenses.....												
5. Incurred claims and cost containment expenses (Lines 3 and 4).....												
6. Increase in contract reserves.....												
7. Commissions (a) .....												
8. Other general insurance expenses .....												
9. Taxes, licenses and fees.....												
10. Total other expenses incurred.....												
11. Aggregate write-ins for deductions.....												
12. Gain from underwriting before dividends or refunds .....												
13. Dividends or refunds .....												
14. Gain from underwriting after dividends or refunds .....												
<b><u>DETAILS OF WRITE-INS</u></b>												
1101. ....												
1102. ....												
1103. ....												
1198. Summary of remaining write-ins for Line 11 from overflow page .....												
1199. Total (Lines 1101 through 1103 plus 1198) (Line 11 above) .....												

(a) Includes \$..... reported as "Contract, membership and other fees retained by agents."

**SCHEDULE H—ACCIDENT AND HEALTH EXHIBIT**

	Total		Group-Accident and-Health		Credit A&H (Group and-Individual)		Collectively Renewable		Other-Individual Contracts									
									Non-Cancelable		Guaranteed-Renewable		Non-Renewable for Stated-Reasons Only		Other Accident-Only		All -Other	
	1 Amount	2 %	3 Amount	4 %	5 Amount	6 %	7 Amount	8 %	9 Amount	10 %	11 Amount	12 %	13 Amount	14 %	15 Amount	16 %	17 Amount	18 %
PART 1—ANALYSIS OF UNDERWRITING OPERATIONS																		
1. Premiums written .....	.....	xxx	.....	xxx	.....	xxx	.....	xxx	.....	xxx	.....	xxx	.....	xxx	.....	xx	.....	xxx
2. Premiums earned .....	.....	xxx	.....	xxx	.....	xxx	.....	xxx	.....	xxx	.....	xxx	.....	xxx	.....	x	.....	xxx
3. Incurred claims .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	xx	.....	.....
4. Cost containment expenses .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	x	.....	.....
5. Incurred claims and cost containment expenses (Lines 3 and 4) .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
6. Increase in contract reserves .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
7. Commissions (a) .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
8. Other general insurance expenses .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
9. Taxes, licenses and fees .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
10. Total other expenses incurred .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
11. Aggregate write-ins for deductions .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
12. Gain from underwriting before dividends or refunds .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
13. Dividends or refunds .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
14. Gain from underwriting after dividends or refunds .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
DETAILS OF WRITE-INS	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1101. ....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1102. ....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1103. ....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1198. Summary of remaining write-ins for Line 11 from overflow page .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1199. Total (Lines 1101 through 1103 plus 1198) (Line 11 above) .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

(a) —Includes \$..... reported as "Contract, membership and other fees retained by agents."

**SCHEDULE H – ACCIDENT AND HEALTH EXHIBIT (Continued)**

**PART 2 – RESERVES AND LIABILITIES**

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital and Medical) Individual	Comprehensive (Hospital and Medical) Group	Medicare Supplement	Vision Only	Dental Only	Federal Employees Health Benefits Plan Premium	Medicare Title XVIII	Medicaid Title XIX	Credit A&H	Disability Income	Long- Term Care	Other Health
<b>A. Premium Reserves:</b>													
1. Unearned premiums.....													
2. Advance premiums.....													
3. Reserve for rate credits.....													
4. Total premium reserves, current year.....													
5. Total premium reserves, prior year.....													
6. Increase in total premium reserves.....													
<b>B. Contract Reserves:</b>													
1. Additional reserves (a).....													
2. Reserve for future contingent benefits.....													
3. Total contract reserves, current year.....													
4. Total contract reserves, prior year.....													
5. Increase in contract reserves.....													
<b>C. Claim Reserves and Liabilities:</b>													
1. Total current year.....													
2. Total prior year.....													
3. Increase.....													

**PART 3 – TEST OF PRIOR YEAR'S CLAIM RESERVES AND LIABILITIES**

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital and Medical) Individual	Comprehensive (Hospital and Medical) Group	Medicare Supplement	Vision Only	Dental Only	Federal Employees Health Benefits Plan Premium	Medicare Title XVIII	Medicaid Title XIX	Credit A&H	Disability Income	Long- Term Care	Other Health
<b>1. Claim paid during the year:</b>													
1.1 On claims incurred prior to current year.....													
1.2 On claims incurred during current year.....													
<b>2. Claim reserves and liabilities, December 31, current year:</b>													
2.1 On claims incurred prior to current year.....													
2.2 On claims incurred during current year.....													
<b>3. Test:</b>													
3.1 Line 1.1 and 2.1.....													
3.2 Claim reserves and liabilities, December 31, prior year.....													
3.3 Line 3.1 minus Line 3.2.....													

**PART 4 – REINSURANCE**

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital and Medical) Individual	Comprehensive (Hospital and Medical) Group	Medicare Supplement	Vision Only	Dental Only	Federal Employees Health Benefits Plan Premium	Medicare Title XVIII	Medicaid Title XIX	Credit A&H	Disability Income	Long- Term Care	Other Health
<b>A. Reinsurance Assumed:</b>													
1. Premiums written.....													
2. Premiums earned.....													
3. Incurred claims.....													
4. Commissions.....													
<b>B. Reinsurance Ceded:</b>													
1. Premiums written.....													
2. Premiums earned.....													
3. Incurred claims.....													
4. Commissions.....													

(a) Includes \$ ..... premium deficiency reserve.

**SCHEDULE H—ACCIDENT AND HEALTH EXHIBIT (Continued)**

	1 Total	2 Group Accident and Health	3 Credit A&H (Group and Individual)	4 Collectively Renewable	Other Individual Contracts				
					5 Non-Cancelable	6 Guaranteed Renewable	7 Non-Renewable for Stated Reasons Only	8 Other Accident Only	9 All Other
<b>PART 2—RESERVES AND LIABILITIES</b>									
A. Premium Reserves:									
1. Unearned premiums.....									
2. Advance premiums.....									
3. Reserve for rate credits.....									
4. Total premium reserves, current year.....									
5. Total premium reserves, prior year.....									
6. Increase in total premium reserves.....									
B. Contract Reserves:									
1. Additional reserves (a).....									
2. Reserve for future contingent benefits.....									
3. Total contract reserves, current year.....									
4. Total contract reserves, prior year.....									
5. Increase in contract reserves.....									
C. Claim Reserves and Liabilities:									
1. Total current year.....									
2. Total prior year.....									
3. Increase.....									
<b>PART 3—TEST OF PRIOR YEAR'S CLAIM RESERVES AND LIABILITIES</b>									
1. Claim paid during the year:									
1.1 On claims incurred prior to current year.....									
1.2 On claims incurred during current year.....									
2. Claim reserves and liabilities, December 31, current year:									
2.1 On claims incurred prior to current year.....									
2.2 On claims incurred during current year.....									
3. Test:									
3.1 Line 1.1 and 2.1.....									
3.2 Claim reserves and liabilities, December 31, prior year.....									
3.3 Line 3.1 minus Line 3.2.....									
<b>PART 4—REINSURANCE</b>									
A. Reinsurance Assumed:									
1. Premiums written.....									
2. Premiums earned.....									
3. Incurred claims.....									
4. Commissions.....									
B. Reinsurance Ceded:									
1. Premiums written.....									
2. Premiums earned.....									
3. Incurred claims.....									
4. Commissions.....									

(a) Includes \$ ..... premium deficiency reserve.

**SCHEDULE H – PART 5 – HEALTH CLAIMS**

	1	2	3	4	5	6 3 Other Federal Employees Health Benefits Plan Premium	7	8	9	10	11	12	13
	Comprehensive (Hospital and Medical) Individual	Comprehensive (Hospital and Medical) Group	Medicare Supplement	+ Medical Vision Only	Dental Only		Medicare Title XVIII	Medicaid Title XIX	Credit A&H	Disability Income	Long- Term Care	Other Health	4 Total
A. Direct:													
1. Incurred Claims .....													
2. Beginning claim reserves and liabilities .....													
3. Ending claim reserves and liabilities .....													
4. Claims paid.....													
B. Assumed Reinsurance:													
15. Incurred Claims .....													
26. Beginning claim reserves and liabilities .....													
37. Ending claim reserves and liabilities .....													
48. Claims paid.....													
C. Ceded Reinsurance:													
19. Incurred Claims .....													
24. Beginning claim reserves and liabilities .....													
34. Ending claim reserves and liabilities .....													
42. Claims paid.....													
D. Net:													
13. Incurred Claims .....													
24. Beginning claim reserves and liabilities .....													
34. Ending claim reserves and liabilities .....													
46. Claims paid.....													
E. Net Incurred Claims and Cost Containment Expenses:													
17. Incurred claims and cost containment expenses .....													
24. Beginning reserves and liabilities .....													
39. Ending reserves and liabilities .....													
49. Paid claims and cost containment expenses .....													

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/App/BlanksWG/minutes/Att Two-A\\_2021-14BWG\\_Modified.doc](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/Fall%202021/TF/App/BlanksWG/minutes/Att%20Two-A_2021-14BWG_Modified.doc)



**Blanks (E) Working Group**  
**Editorial Revisions to the Blanks and Instructions**  
*(presented at the November 16, 2021, Meeting)*

Statement Type:

**H** = Health; **L/F** = Life/Fraternal Combined; **P/C** = Property/Casualty; **SA** = Separate Accounts; **T** = Title

Effective			Statement Type	Filing Type
2021 Annual	Life, Health & Annuity Guaranty Association Assessable Premium Exhibit Part 2	<b>CHANGE TO BLANK</b>  Block column 4, line 19.8 for entry per information from sponsor of proposal 2020-31BWG.	L/F, H, P	Annual
2021 Annual	Schedule DB, Part A, Section 2	<b>CHANGE TO BLANK</b>  Add “Undiscounted” to columns 13 and 14 descriptions. From 2018-12BWG proposal and missed going forward.	L/F, H, P, T, SA	Annual
2021 Annual	Schedule D, Part 6, Section 1	<b>CHANGE TO BLANK</b>  Change column 7 – Book Adjusted Carrying Value to allow a total. It was moved from column 9, which included a total.	L/F, H, P, T, SA	Annual
2022 Annual	Notes to Financial Statements	<b>CHANGE TO INSTRUCTION</b>  Add formulas to the illustration for Note 5A(7) to clarify calculation of balance.  A. Mortgage Loans, including Mezzanine Real Estate Loans  (7) Allowance for Credit Losses:  a. Balance at beginning of period b. Additions charged to operations c. Direct write-downs charged against the allowances d. Recoveries of amounts previously charged off e. Balance at end of period (a+b-c-d)	L/F, H, P, T	Annual

Effective			Statement Type	Filing Type
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b> Add formulas to the illustration for Note 5D(2) to clarify calculation of totals.</p> <p style="padding-left: 40px;">D. Loan-Backed Securities (2)</p> <p style="padding-left: 80px;">OTTI recognized 1<sup>st</sup> Quarter</p> <p style="padding-left: 80px;">a. Intent to sell</p> <p style="padding-left: 80px;">b. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis</p> <p style="padding-left: 80px;">c. Total 1<sup>st</sup> Quarter <u>(a+b)</u></p> <p style="padding-left: 80px;">OTTI recognized 2<sup>nd</sup> Quarter</p> <p style="padding-left: 80px;">d. Intent to sell</p> <p style="padding-left: 80px;">e. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis</p> <p style="padding-left: 80px;">f. Total 2<sup>nd</sup> Quarter <u>(d+e)</u></p> <p style="padding-left: 80px;">OTTI recognized 3<sup>rd</sup> Quarter</p> <p style="padding-left: 80px;">g. Intent to sell</p> <p style="padding-left: 80px;">h. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis</p> <p style="padding-left: 80px;">i. Total 3<sup>rd</sup> Quarter <u>(g+h)</u></p> <p style="padding-left: 80px;">OTTI recognized 4<sup>th</sup> Quarter</p> <p style="padding-left: 80px;">j. Intent to sell</p> <p style="padding-left: 80px;">k. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis</p> <p style="padding-left: 80px;">l. Total 4<sup>th</sup> Quarter <u>(j+k)</u></p> <p style="padding-left: 80px;">m. Annual Aggregate Total <u>(c+f+i+l)</u></p>	L/F, H, P, T	Annual

Effective			Statement Type	Filing Type
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b></p> <p>Add formulas to the illustration for Note 5E(3) and 5E(5) to clarify calculation of subtotals and totals.</p> <p>E. Dollar Repurchase Agreements and/or Securities Lending Transactions</p> <p>(3) Collateral Received</p> <p>a. Aggregate Amount Collateral Received</p> <p>1. Securities Lending</p> <p>(a) Open</p> <p>(b) 30 Days or Less</p> <p>(c) 31 to 60 Days</p> <p>(d) 61 to 90 Days</p> <p>(e) Greater Than 90 Days</p> <p>(f) Sub-Total <u>(a+b+c+d+e)</u></p> <p>(g) Securities Received</p> <p>(h) Total Collateral Received <u>(f+g)</u></p> <p>2. Dollar Repurchase Agreement</p> <p>(a) Open</p> <p>(b) 30 Days or Less</p> <p>(c) 31 to 60 Days</p> <p>(d) 61 to 90 Days</p> <p>(e) Greater Than 90 Days</p> <p>(f) Sub-Total <u>(a+b+c+d+e)</u></p> <p>(g) Securities Received</p> <p>(h) Total Collateral Received <u>(f+g)</u></p> <p>(5) Collateral Reinvestment</p> <p>a. Aggregate Amount Collateral Reinvested</p> <p>1. Securities Lending</p> <p>(a) Open</p> <p>(b) 30 Days or Less</p>	L/F, H, P, T	Annual

Effective			Statement Type	Filing Type			
		<div><div>(c)31 to 60 Days</div><div>(d)61 to 90 Days</div><div>(e)91 to 120 Days</div><div>(f)121 to 180 Days</div><div>(g)181 to 365 Days</div><div>(h)1 to 2 Years</div><div>(i)2 to 3 Year</div><div>(j)Greater Than 3 Years</div><div>(k)Sub-Total (Sum of a through j)</div><div>(l)Securities Received</div><div>(m)Total Collateral Reinvested (k+l)</div></div> <div>2. Dollar Repurchase Agreement</div> <div><div>(a)Open</div><div>(b)30 Days or Less</div><div>(c)31 to 60 Days</div><div>(d)61 to 90 Days</div><div>(e)91 to 120 Days</div><div>(f)121 to 180 Days</div><div>(g)181 to 365 Days</div><div>(h)1 to 2 Years</div><div>(i)2 to 3 Year</div><div>(j)Greater Than 3 Years</div><div>(k)Sub-Total (Sum of a through j)</div><div>(l)Securities Received</div><div>(m)Total Collateral Reinvested (k+l)</div></div>					
2022 Annual	Notes to Financial Statements	<div>CHANGE TO INSTRUCTION</div> <div>Add formula to the illustration for Note 5L(1) to clarify calculation of total.</div> <div>L. Restricted Assets</div> <div>(1) Restricted Assets (Including Pledged)</div> <div><table><tr><td>Restricted Asset Category</td></tr><tr><td>a. Subject to contractual obligation for which liability is not shown</td></tr><tr><td>b. Collateral held under security lending agreements</td></tr></table></div>	Restricted Asset Category	a. Subject to contractual obligation for which liability is not shown	b. Collateral held under security lending agreements	L/F, H, P, T	Annual
Restricted Asset Category							
a. Subject to contractual obligation for which liability is not shown							
b. Collateral held under security lending agreements							

Effective			Statement Type	Filing Type																										
		<table><tr><td>c.</td><td>Subject to repurchase agreements</td></tr><tr><td>d.</td><td>Subject to reverse repurchase agreements</td></tr><tr><td>e.</td><td>Subject to dollar repurchase agreements</td></tr><tr><td>f.</td><td>Subject to dollar reverse repurchase agreements</td></tr><tr><td>g.</td><td>Placed under option contracts</td></tr><tr><td>h.</td><td>Letter stock or securities restricted as to sale – excluding FHLB capital stock</td></tr><tr><td>i.</td><td>FHLB capital stock</td></tr><tr><td>j.</td><td>On deposit with states</td></tr><tr><td>k.</td><td>On deposit with other regulatory bodies</td></tr><tr><td>l.</td><td>Pledged as collateral to FHLB (including assets backing funding agreements)</td></tr><tr><td>m.</td><td>Pledged as collateral not captured in other categories</td></tr><tr><td>n.</td><td>Other restricted assets</td></tr><tr><td>o.</td><td>Total Restricted Assets (Sum of a through n)</td></tr></table> <p>(a) Subset of Column 1 (b) Subset of Column 3</p>	c.	Subject to repurchase agreements	d.	Subject to reverse repurchase agreements	e.	Subject to dollar repurchase agreements	f.	Subject to dollar reverse repurchase agreements	g.	Placed under option contracts	h.	Letter stock or securities restricted as to sale – excluding FHLB capital stock	i.	FHLB capital stock	j.	On deposit with states	k.	On deposit with other regulatory bodies	l.	Pledged as collateral to FHLB (including assets backing funding agreements)	m.	Pledged as collateral not captured in other categories	n.	Other restricted assets	o.	Total Restricted Assets (Sum of a through n)		
c.	Subject to repurchase agreements																													
d.	Subject to reverse repurchase agreements																													
e.	Subject to dollar repurchase agreements																													
f.	Subject to dollar reverse repurchase agreements																													
g.	Placed under option contracts																													
h.	Letter stock or securities restricted as to sale – excluding FHLB capital stock																													
i.	FHLB capital stock																													
j.	On deposit with states																													
k.	On deposit with other regulatory bodies																													
l.	Pledged as collateral to FHLB (including assets backing funding agreements)																													
m.	Pledged as collateral not captured in other categories																													
n.	Other restricted assets																													
o.	Total Restricted Assets (Sum of a through n)																													
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b></p> <p>Add formulas to the illustration for Note 5M(1) and 5M(2) to clarify calculation of totals.</p> <p>M. Working Capital Finance Investments</p> <p>(1) Aggregate Working Capital Finance Investments (WCFI) Book/Adjusted Carrying Value by NAIC Designation:</p> <p>a. WCFI Designation 1 b. WCFI Designation 2 c. WCFI Designation 3 d. WCFI Designation 4 e. WCFI Designation 5 f. WCFI Designation 6 g. Total (a+b+c+d+e+f)</p> <p>(2) Aggregate Maturity Distribution on the Underlying Working Capital Finance Programs:</p>	L/F, H, P, T	Annual																										

Effective			Statement Type	Filing Type
		<div>a. Up to 180 Days</div> <div>b. 181 Days to 365 Days</div> <div>c. Total <u>(a+b)</u></div>		
2022 Annual	Notes to Financial Statements	<div>CHANGE TO INSTRUCTION</div> <div>Add formula to the illustration for Note 8A(8) to clarify calculation of total.</div> <div>A. Derivatives under SSAP No. 86—Derivatives</div> <div>(8)</div> <div>a.</div> <div><div>Fiscal Year</div><div>1. 2022</div><div>2. 2023</div><div>3. 2024</div><div>4. 2025</div><div>5. Thereafter</div><div>6. Total Future Settled Premiums <u>(Sum of 1 through 5)</u></div></div>	L/F, H, P, T	Annual
2022 Annual	Notes to Financial Statements	<div>CHANGE TO INSTRUCTION</div> <div>Add formula to the illustration for Note 8B(2) to clarify calculation of total.</div> <div>B. Derivatives under SSAP No. 108—Derivative Hedging Variable Annuity Guarantees</div> <div>(2) Recognition of gains/losses and deferred assets and liabilities</div> <div>a. Scheduled Amortization</div> <div><div>Amortization Year</div><div>1. 2022</div><div>2. 2023</div><div>3. 2024</div><div>4. 2025</div><div>5. 2026</div></div>	L/F, H, P, T	Annual

Effective			Statement Type	Filing Type
		6. 2027 7. 2028 8. 2029 9. 2030 10. 2031 11. Total ( <u>Sum of 1 through 10</u> )		
2022 Annual	Notes to Financial Statements	<b>CHANGE TO INSTRUCTION</b>  Add formula to the illustration for Note 14A(3)c to clarify calculation of total.  A. Contingent Commitments  (3)  a. Aggregate Maximum Potential of Future Payments of All Guarantees (undiscounted) the guarantor could be required to make under guarantees. (Should equal total of Column 4 for (2) above.)  b. Current Liability Recognized in F/S: 1. Noncontingent Liabilities 2. Contingent Liabilities  c. Ultimate Financial Statement Impact if action under the guarantee is required. 1. Investments in SCA 2. Joint Venture 3. Dividends to Stockholders (capital contribution) 4. Expense 5. Other 6. Total ( <u>1+2+3+4+5</u> ) (Should equal (3)a.)	L/F, H, P, T	Annual
2022 Annual	Notes to Financial Statements	<b>CHANGE TO INSTRUCTION</b>  Add formulas to the illustration for Note 16(1) to clarify calculation of total.	L/F, H, P, T	Annual

Effective			Statement Type	Filing Type
		<p>(1) The table below summarizes the face amount of the Company's financial instruments with off-balance-sheet risk.</p> <p>a. Swaps</p> <p>b. Futures</p> <p>c. Options</p> <p>d. Total <u>(a+b+c)</u></p>		
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b></p> <p>Add formulas to the illustration for Note 21F(2), 21F(3) and 21F(4) to clarify calculation of totals.</p> <p>F. Subprime-Mortgage-Related Risk Exposure</p> <p>(2) Direct exposure through investments in subprime mortgage loans.</p> <p>a. Mortgages in the process of foreclosure</p> <p>b. Mortgages in good standing</p> <p>c. Mortgages with restructured terms</p> <p>d. Total <u>(a+b+c)</u></p> <p>(3) Direct exposure through other investments.</p> <p>a. Residential mortgage-backed securities</p> <p>b. Commercial mortgage-backed securities</p> <p>c. Collateralized debt obligations</p> <p>d. Structured securities</p> <p>e. Equity investment in SCAs *</p> <p>f. Other assets</p> <p>g. Total <u>(a+b+c+d+e+f)</u></p> <p>* ABC Company's subsidiary XYZ Company has investments in subprime mortgages. These investments comprise ____% of the companies invested assets.</p> <p>(4) Underwriting exposure to subprime mortgage risk through Mortgage Guaranty or Financial Guaranty insurance coverage.</p>	L/F, H, P, T	Annual



Effective			Statement Type	Filing Type
		<ul style="list-style-type: none"> <li>a. Mortgage guaranty coverage</li> <li>b. Financial guaranty coverage</li> <li>c. Other lines (specify): ..... ..... .....</li> <li>d. Total (<u>Sum of a through c</u>)</li> </ul>		
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b></p> <p>Add formulas to the illustration for Note 18A and 18B to clarify calculation of totals.</p> <ul style="list-style-type: none"> <li>A. ASO Plans <ul style="list-style-type: none"> <li>a. Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses</li> <li>b. Total net other income or expenses (including interest paid to or received from plans)</li> <li>c. Net gain or (loss) from operations (<u>a+b</u>)</li> <li>d. Total claim payment volume</li> </ul> </li> <li>B. ASC Plans <ul style="list-style-type: none"> <li>a. Gross reimbursement for medical cost incurred</li> <li>b. Gross administrative fees accrued</li> <li>c. Other income or expenses (including interest paid to or received from plans)</li> <li>d. Gross expenses incurred (claims and administrative) (<u>a+b+c</u>)</li> <li>e. Total net gain or loss from operations</li> </ul> </li> </ul>	L/F, H, P	Annual
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b></p> <p>Add formula to the illustration for Note 21G(2) to clarify calculation of total.</p> <ul style="list-style-type: none"> <li>G. Retained Assets</li> </ul>	L/F, H	Annual

Effective			Statement Type	Filing Type							
		<div>(2)<table><tr><td>a. Up to and including 12 months</td></tr><tr><td>b. 13 to 24 months</td></tr><tr><td>c. 25 to 36 months</td></tr><tr><td>d. 37 to 48 months</td></tr><tr><td>e. 49 to 60 months</td></tr><tr><td>f. Over 60 months</td></tr><tr><td>g. Total (a+b+c+d+e+f)</td></tr></table></div>	a. Up to and including 12 months	b. 13 to 24 months	c. 25 to 36 months	d. 37 to 48 months	e. 49 to 60 months	f. Over 60 months	g. Total (a+b+c+d+e+f)		
a. Up to and including 12 months											
b. 13 to 24 months											
c. 25 to 36 months											
d. 37 to 48 months											
e. 49 to 60 months											
f. Over 60 months											
g. Total (a+b+c+d+e+f)											
2022 Annual	Notes to Financial Statements	<b>CHANGE TO INSTRUCTION</b> Add formulas to the illustration for Note 32D to clarify calculation of totals.  D. <div>Life &amp; Accident &amp; Health Annual Statement:</div> <div>(1) Exhibit 5, Annuities Section, Total (net)</div> <div>(2) Exhibit 5, Supplementary Contracts with Life Contingencies Section, Total (net)</div> <div>(3) Exhibit 7, Deposit-Type Contracts, Line 14, Column 1</div> <div>(4) Subtotal (1+2+3)</div> <div>Separate Accounts Annual Statement:</div> <div>(5) Exhibit 3, Line 0299999, Column 2</div> <div>(6) Exhibit 3, Line 0399999, Column 2</div> <div>(7) Policyholder dividend and coupon accumulations</div> <div>(8) Policyholder premiums</div> <div>(9) Guaranteed interest contracts</div> <div>(10) Other contract deposit funds</div> <div>(11) Subtotal (5+6+7+8+9+10)</div> <div>(12) Combined Total (4+11)</div>	L/F	Annual							
2022 Annual	Notes to Financial Statements	<b>CHANGE TO INSTRUCTION</b> Add formulas to the illustration for Note 33D to clarify calculation of totals.  D. <div>Life &amp; Accident &amp; Health Annual Statement:</div> <div>(1) Exhibit 5, Life Insurance Section, Total (net)</div> <div>(2) Exhibit 5, Accidental Death Benefits Section, Total (net)</div> <div>(3) Exhibit 5, Disability – Active Lives Section, Total (net)</div>	L/F	Annual							

Effective			Statement Type	Filing Type
		(4) Exhibit 5, Disability – Disabled Lives Section, Total (net) (5) Exhibit 5, Miscellaneous Reserves Section, Total (net) (6) Subtotal <u>(1+2+3+4+5)</u> Separate Accounts Annual Statement: (7) Exhibit 3, Line 0199999, Column 2 (8) Exhibit 3, Line 0499999, Column 2 (9) Exhibit 3, Line 0599999, Column 2 (10) Subtotal <del>(Lines (7) through (9))</del> <u>(7+8+9)</u> (11) Combined Total <del>((6) and (10))</del> <u>(6+10)</u>		
2022 Annual	Notes to Financial Statements	<b>CHANGE TO INSTRUCTION</b> Add formula to the illustration for Note 34A to clarify calculation of total. A. Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 20____, were as follows: <div style="margin-left: 40px;"> <u>Type</u>            (1) Industrial            (2) Ordinary new business            (3) Ordinary renewal            (4) Credit Life            (5) Group Life            (6) Group Annuity            (7) Totals <u>(1+2+3+4+5+6)</u> </div>	L/F	Annual
2022 Annual	Notes to Financial Statements	<b>CHANGE TO INSTRUCTION</b> Add formulas to the illustration for Note 35B to clarify calculation of totals. <div style="margin-left: 40px;">           (1) Premiums, considerations or deposits for year ended 12/31/____                Reserves at 12/31/____            (2) For accounts with assets at:                a. Fair value                b. Amortized cost                c. Total Reserves* (a+b)            (3) By withdrawal characteristics:                a. Subject to discretionary withdrawal:                    1. With market value adjustment         </div>	L/F	Annual

Effective			Statement Type	Filing Type
		<p>2. At book value without market value adjustment and with current surrender charge of 5% or more</p> <p>3. At fair value</p> <p>4. At book value without market value adjustment and with current surrender charge less than 5%</p> <p>5. Subtotal <u>(1+2+3+4)</u></p> <p>b. Not subject to discretionary withdrawal</p> <p>c. Total <u>(a+b)</u></p> <p>* Line 2(c) should equal Line 3(c).</p> <p>(4) Reserves for Asset Default Risk in Lieu of AVR</p>		
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b></p> <p>Add formulas to the illustration for Note 23C to clarify calculation of totals.</p> <p>C. Reinsurance Assumed and Ceded</p> <p>(1)</p> <p>a. Affiliates</p> <p>b. All Other</p> <p>c. TOTAL <u>(a+b)</u></p> <p>d. Direct Unearned Premium Reserve</p> <p>Line (c) of Ceded Reinsurance Premium Reserve Column must equal Page 3, Line 9, first inside amount.</p> <p>(2) The additional or return commission, predicated on loss experience or on any other form of profit sharing arrangements in this annual statement as a result of existing contractual arrangements is accrued as follows:</p> <p><u>REINSURANCE</u></p> <p>a. Contingent Commission</p> <p>b. Sliding Scale Adjustments</p> <p>c. Other Profit Commission Arrangements</p> <p>d. TOTAL <u>(a+b+c)</u></p>	P, T	Annual

Effective			Statement Type	Filing Type
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b></p> <p>Add formula to the illustration for Note 14A(3)c to clarify calculation of total.</p> <p style="margin-left: 40px;">A. Contingent Commitments</p> <p style="margin-left: 80px;">(3)</p> <p style="margin-left: 120px;">c. Ultimate Financial Statement Impact if action under the guarantee is required.</p> <p style="margin-left: 160px;">1. Investments in SCA</p> <p style="margin-left: 160px;">2. Joint Venture</p> <p style="margin-left: 160px;">3. Dividends to Stockholders (capital contribution)</p> <p style="margin-left: 160px;">4. Expense</p> <p style="margin-left: 160px;">5. Other</p> <p style="margin-left: 160px;">6. Total <u>(1+2+3+4+5)</u> (Should equal (3)a.)</p>	P	Annual
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b></p> <p>Add formulas to the illustration for Note 23F(1) to clarify calculation of totals.</p> <p style="margin-left: 40px;">F. Retroactive Reinsurance</p> <p style="margin-left: 80px;">(1)</p> <p style="margin-left: 120px;">a. Reserves Transferred:</p> <p style="margin-left: 160px;">1. Initial Reserves</p> <p style="margin-left: 160px;">2. Adjustments – Prior Year(s)</p> <p style="margin-left: 160px;">3. Adjustments – Current Year</p> <p style="margin-left: 160px;">4. Current Total <u>(1+2+3)</u></p> <p style="margin-left: 120px;">b. Consideration Paid or Received:</p> <p style="margin-left: 160px;">1. Initial Consideration</p> <p style="margin-left: 160px;">2. Adjustments – Prior Year(s)</p> <p style="margin-left: 160px;">3. Adjustments – Current Year</p> <p style="margin-left: 160px;">4. Current Total <u>(1+2+3)</u></p> <p style="margin-left: 120px;">c. Paid Losses Reimbursed or Recovered:</p> <p style="margin-left: 160px;">1. Prior Year(s)</p>	P	Annual

Effective			Statement Type	Filing Type																	
		<div>2. Current Year</div> <div>3. Current Total <u>(1+2)</u></div> <div>d. Special Surplus from Retroactive Reinsurance:</div> <div>1. Initial Surplus Gain or Loss</div> <div>2. Adjustments – Prior Year(s)</div> <div>3. Adjustments – Current Year</div> <div>4. Current Year Restricted Surplus</div> <div>5. Cumulative Total Transferred to Unassigned Funds <u>(1+2+3+4)</u></div>																			
2022 Annual	Notes to Financial Statements	<div>CHANGE TO INSTRUCTION</div> <div>Add formula to the illustration for Note 32A to clarify calculation of total.</div> <div>A. Tabular Discount</div> <table><tr><th>Schedule P Lines of Business</th></tr><tr><td>1. Homeowners/Farmowners</td></tr><tr><td>2. Private Passenger Auto Liability/Medical</td></tr><tr><td>3. Commercial Auto/Truck Liability/Medical</td></tr><tr><td>4. Workers’ Compensation</td></tr><tr><td>5. Commercial Multiple Peril</td></tr><tr><td>6. Medical Professional Liability – occurrence</td></tr><tr><td>7. Medical Professional Liability – claims-made</td></tr><tr><td>8. Special Liability</td></tr><tr><td>9. Other Liability – occurrence</td></tr><tr><td>10. Other Liability – claims-made</td></tr><tr><td>11. Special Property</td></tr><tr><td>12. Auto Physical Damage</td></tr><tr><td>13. Fidelity, Surety</td></tr><tr><td>14. Other (including Credit, Accident &amp; Health)</td></tr><tr><td>15. International</td></tr><tr><td>16. Reinsurance Nonproportional Assumed Property</td></tr></table>	Schedule P Lines of Business	1. Homeowners/Farmowners	2. Private Passenger Auto Liability/Medical	3. Commercial Auto/Truck Liability/Medical	4. Workers’ Compensation	5. Commercial Multiple Peril	6. Medical Professional Liability – occurrence	7. Medical Professional Liability – claims-made	8. Special Liability	9. Other Liability – occurrence	10. Other Liability – claims-made	11. Special Property	12. Auto Physical Damage	13. Fidelity, Surety	14. Other (including Credit, Accident & Health)	15. International	16. Reinsurance Nonproportional Assumed Property	P	Annual
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Effective					Statement Type	Filing Type																																
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2022 Annual	Notes to Financial Statements	<b>CHANGE TO INSTRUCTION</b>  Add formulas to the illustration for Note 33A to clarify calculation of totals.  A.  (1) Direct – a. Beginning reserves: b. Incurred losses and loss adjustment expense: c. Calendar year payments for losses and loss adjustment expenses: d. Ending reserves (a+b-c):  (2) Assumed Reinsurance – a. Beginning reserves: b. Incurred losses and loss adjustment expense: c. Calendar year payments for losses and loss adjustment expenses: d. Ending reserves (a+b-c):  (3) Net of Ceded Reinsurance – a. Beginning reserves:			P	Annual														



Effective			Statement Type	Filing Type
		<ul style="list-style-type: none"> <li>b. Incurred losses and loss adjustment expense:</li> <li>c. Calendar year payments for losses and loss adjustment expenses:</li> <li>d. Ending reserves <u>(a+b-c)</u>:</li> </ul>		
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b></p> <p>Add formulas to the illustration for Note 33D to clarify calculation of totals.</p> <p>D.</p> <ul style="list-style-type: none"> <li>(1) Direct – <ul style="list-style-type: none"> <li>a. Beginning reserves:</li> <li>b. Incurred losses and loss adjustment expense:</li> <li>c. Calendar year payments for losses and loss adjustment expenses:</li> <li>d. Ending reserves <u>(a+b-c)</u>:</li> </ul> </li> <li>(2) Assumed Reinsurance – <ul style="list-style-type: none"> <li>a. Beginning reserves:</li> <li>b. Incurred losses and loss adjustment expense:</li> <li>c. Calendar year payments for losses and loss adjustment expenses:</li> <li>d. Ending reserves <u>(a+b-c)</u>:</li> </ul> </li> <li>(3) Net of Ceded Reinsurance – <ul style="list-style-type: none"> <li>a. Beginning reserves:</li> <li>b. Incurred losses and loss adjustment expense:</li> <li>c. Calendar year payments for losses and loss adjustment expenses:</li> <li>d. Ending reserves <u>(a+b-c)</u>:</li> </ul> </li> </ul>	P	Annual
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b></p> <p>Add formulas to the illustration for Note 36A(1)c and 36A(3)b to clarify calculation of totals.</p>	P	Annual

Effective			Statement Type	Filing Type
		<p>A.</p> <p>(1) Financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:</p> <p>c. Roll forward of the expected future premiums (undiscounted), including:</p> <ol style="list-style-type: none"> <li>1. Expected future premiums – Beginning of Year</li> <li>2. Less – Premium payments received for existing installment contracts</li> <li>3. Add – Expected premium payments for new installment contracts</li> <li>4. Adjustments to the expected future premium payments</li> <li>5. Expected future premiums – End of Year <u>(1-2+3+4)</u></li> </ol> <p>(3) Claim liability:</p> <p>b. Significant components of the change in the claim liability for the period</p> <p style="text-align: center;">Components</p> <ol style="list-style-type: none"> <li>(1) Accretion of the discount</li> <li>(2) Changes in timing</li> <li>(3) New reserves for defaults of insured contracts</li> <li>(4) Change in deficiency reserves</li> <li>(5) Change in incurred but not reported claims</li> <li>(6) Total <u>(1+2+3+4+5)</u></li> </ol>		
2022 Annual	Notes to Financial Statements	<p><b>CHANGE TO INSTRUCTION</b></p> <p>Add formulas to the illustration for Note 36B to clarify calculation of totals.</p> <p>B. Schedule of insured financial obligations at the end of the period</p> <ol style="list-style-type: none"> <li>1. Number of policies</li> <li>2. Remaining weighted-average contract period (in years)</li> </ol> <p>Insured contractual payments outstanding:</p>	P	Annual

Effective			Statement Type	Filing Type
		3a. Principal 3b. Interest 3c. Total <u>(3a+3b)</u>  4. Gross claim liability  Less: 5a. Gross potential recoveries 5b. Discount, net  6. Net claim liability <u>(4-5a-5b)</u>  7. Unearned premium revenue  8. Reinsurance recoverables		

[https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/fall 2021/tf/app/blankswg/minutes/att two-b\\_blanks editorial changes november 2021.docx](https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member%20meetings/fall%202021/tf/app/blankswg/minutes/att%20two-b_blanks%20editorial%20changes%20november%202021.docx)

## General Instructions For States to Complete Checklist

Each checklist is divided into five sections. The first section contains the major NAIC filings. The second section lists all of the NAIC supplements, whether they are to be bound into the statement or not. The third section lists items to be filed electronically with the NAIC. The fourth section is a list of all of the filings related to the audited financial statements. The fifth section lists state-specific filing requirements. **The items in the first four sections should remain in the same order as the examples.** This will enable companies to locate common information about a particular filing from each state. Finally, there is a section of notes to the instructions. The purpose of the Notes is to provide companies with state-specific information in a standard format. You may require more notes than provided; however, **the first notes should remain in the same order and format for each state.** Each state-specific note should contain state-specific instructions where any state deviates from specific NAIC instructions. The state should mail the company instructions to companies along with the checklist or post these instructions to its website. New requirements or changes to the checklists will be highlighted for your convenience.

**Please Note:** **Your state's requirements for companies to file with the NAIC should be incorporated into this Checklist.**

### **Column 1      Checklist**

This column provides the company a method for marking completed forms or filings.

### **Column 2      Line #**

Refers to a standard filing number used for easy reference and which may change from year to year, but should remain the same between states (i.e., number 61 - Annual Statement Electronic Filing is the same for all jurisdictions.). States may expand the State Required Filings Section to include up to 100 filings required by any individual state.

### **Column 3      Required Filings**

Name of item or form to be filed. Each section is alphabetized. Please note that the items shown under "State Required Filings" may not apply to your state. The items included are those that a significant number of states require. Please add your state-specific filings in Section V.

~~**Form B—Holding Company Registration Statement, Form F—Enterprise Risk Report and ORSA—Group Capital Calculation has**~~ **have been added to the "State Required Filings" section of the checklist.**

If more than one state page is required from each company, please insert this requirement under "State Required Filings." Likewise, if your state requires the Risk-Based Capital from your domestic companies to be filed with you in addition to companies filing this with the NAIC, please insert this requirement under "State Required Filings."

The 1999 *Annual Statement Instructions* were modified to waive paper filings of certain NAIC supplements (those supplements previously included in the Electronic Filing Pilot Project) and certain investment schedule detail, if such investment schedule data is available to the states via the NAIC database. The checklists have been modified to reflect this action taken by the Blanks (EX) Task Force. XXX appears in the "Number of Copies" "Foreign" column for the appropriate schedules and exhibits. If you are deviating from the *Annual Statement Instructions* and wish to have these items filed in hard copy with your department, you should remove XXX from this column and insert the number of copies required. You should also make a note to companies that an additional copy is not required if these schedules are bound in the Annual Statement.

### **Column 4      Number of Copies**

This column indicates the number of copies that a foreign or domestic company is required to file for each type of form. The 1999 *Annual Statement Instructions* were modified to exclude the requirement for filing paper copies of investment schedules from foreign companies if the data is captured on the NAIC database. The 1999 *Annual Statement Instructions* were modified to include the supplements that were part of the Electronic Filing Pilot. An XXX appears in the foreign column, if the schedule or supplement is included in either of these instructions. If you require paper copies of these schedules or supplements, you should remove XXX from this column and insert the number of copies required. An N/A appears in this column if the filing is only required with the state of domicile according to the NAIC *Annual Statement Instructions*. This does not preclude any state from requesting these documents from any company. If you wish to request the documents, simply remove the XXX or N/A and insert the number of copies that you require.

**Column 5      Due Date**

Due Date indicates the date a filing is required with the state insurance regulatory authority. If you do not require a specific filing, please replace the date with XXX. Use Note E to explain any other filing instructions regarding due dates.

**Column 6      Form Source**

This column contains one of three words: “NAIC,” “State,” or “Company,” If this column contains “NAIC,” the company must obtain the forms from the appropriate vendor. If this column contains “State,” the state will provide the forms with the filing instructions. If this column contains “Company,” the company, or its representative (e.g., its CPA firm), is expected to provide the form based upon the appropriate state instructions or the NAIC *Annual Statement Instructions*. Insert a “#” sign after the form source where the state has changed the requirements since last year or the item is a new NAIC blank. Do not insert a “#” sign if the NAIC blank has changed, as this would lead to many “#” signs, making its use somewhat meaningless.

**Column 7      Applicable Notes**

This column contains references to the Notes and Instructions that apply to each item. However, Notes A-K apply to all filings.

**Item 85**

Insert specific instructions related to appointment or change in Independent CPA.

## Instructions and Suggested Language for the Notes

General:

1. ***Suggested language*** for each note should be used to the extent possible.
2. Some of the suggested language covers different ideas, for example, note E has several different issues that could apply. Where appropriate, combine language.
3. Where appropriate, list each item and special instructions (see notes H and K, for examples)
4. **Examples** for notes are shown in italics and should be replaced by your state-specific instructions.

**Note A**.....should provide the name(s), email address(es) and phone number(s) of a person that companies may contact with questions regarding filings. If there is more than one person, please indicate the types of calls each person takes, in addition to their name and number.

**Note B**.....should list the mailing address, and hand delivery address (if different) for required filings.

**Note C**.....should provide specific information related to the amount(s) and mailing address for filing fees.

**Note D**.....should list the mailing address for premium taxes (and a contact if appropriate). If your state has a different Department collect premium taxes (not the Department that collects other insurance information, fees), please indicate that Department, and provide a contact name if possible.

**Note E**.....should contain instructions on delivery dates, and any other special delivery instructions:

..... *E-1 All filings must be physically received at one of the addresses in Note B no later than the indicated due date.*

..... *All items must be mailed U.S. mail.*

..... *If the due date falls on a weekend or holiday, then the deadline is extended to the next business day.*

..... ***or***

..... *E-2 All filings must be postmarked no later than the indicated due date.*

..... *All items must be mailed U.S. mail.*

..... *If the due date falls on a weekend or holiday, then the deadline is extended to the next business day.*

**Note F**.....should describe any penalties for late filings

..... *Companies will be fined \$100 per day for a late filing.*

..... *Company's license may be suspended if the annual statement is received more than 30 days late.*

**Note G**.....should contain language on original signatures:

..... *Original signatures required on all filings from domestic companies. Foreign companies should follow the instructions in the NAIC Annual Statement Instructions.*

..... *Original signatures required on all filings that require signatures.*

**Note H**.....should contain other signature/notarization/certification instructions. [These are examples and should be updated according to your state's current requirements.](#)÷

..... *The following officers are required to sign the annual statement:*

..... CEO; President; Treasurer  
.....  
..... Special instructions:  
..... Reinsurance Summary Statement --must be notarized

**Note I** .....should contain instructions on filing amended filings.

..... Amended items must be filed within 10 days of their amendment, along with an explanation of the amendments. If there are signature requirements for the original filing, same should be followed for any amendment.

**Note J** .....should contain instructions for companies to request an exemption or extension to a filing

..... Foreign companies must supply a written copy of any exemption or extension received by its state of domicile at least 10 days prior to the filing due date to receive such from Minnesota. Domestic companies should apply at least 30 days prior to the due date.

**Note K** .....should contain instructions on bar codes

..... Please use the bar codes supplied by Florida.  
.....  
..... **or**  
.....  
..... Please follow the instructions in the NAIC Annual Statement Instructions.  
.....  
..... **or**  
.....  
..... Bar codes for Minnesota filings should be generated according to NAIC instructions. The codes are:  
..... Certificate of Deposit..... 003  
..... Credit Insurance Annual Report ..... 004  
..... Form 10K ..... 005  
..... Independent Actuarial Opinion ..... 006  
..... Investment Policy Certification ..... 007  
..... Non comprehensive Accident & Health Exhibit ..... 008  
..... Report by Independent CPA Regarding Application of Valuation Procedures ..... 009  
..... Report on Evaluation of Accounting Procedures and System of Internal Control ..... 010  
..... Report of Ratio of Qualified Assets to Required Liabilities..... 011

**Note L** .....should have instructions for filing Signed Jurat page

.....  
..... If the state requires the filing of a Signed Jurat page for foreign companies, please indicate.

**Note M** .....should have instructions for NONE filings

..... If the state requires the filing of a “NONE” page, please indicate.  
.....  
..... See NAIC Annual Statement Instructions for Supplemental Interrogatories. Exceptions to these instructions are noted on the form.

**Note N** .....Filings New, Discontinued or Materially Modified since last year.

..... None of the filings have been discontinued since last year  
.....  
..... No longer required:  
..... Listing of new Reinsurers

[https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/fall 2021/tf/app/blanksWG/minutes/att two-c5 gi\\_states\\_instructions2021.docx](https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member%20meetings/fall%202021/tf/app/blanksWG/minutes/att%20two-c5%20gi_states_instructions2021.docx)

### HEALTH ENTITIES

**COMPANY NAME:** \_\_\_\_\_ **NAIC Company Code:** \_\_\_\_\_

**Contact:** \_\_\_\_\_ **Telephone:** \_\_\_\_\_

**REQUIRED FILINGS IN THE STATE OF:** \_\_\_\_\_ **Filings Made During the Year 2022**<sup>1</sup>

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES*			(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
			Domestic		Foreign			
			State	NAIC	State			
		<b>I. NAIC FINANCIAL STATEMENTS</b>						
	1	Annual Statement (8 ½"X14")		EO		3/1	NAIC	
	1.1	Printed Investment Schedule detail (Pages E01-E29)		EO	xxx	3/1	NAIC	
	2	Quarterly Financial Statement (8 ½" x 14")		EO		5/15, 8/15, 11/15	NAIC	
		<b>II. NAIC SUPPLEMENTS</b>						
	11	Accident & Health Policy Experience Exhibit		EO		4/1	NAIC	
	12	Actuarial Opinion		EO		3/1	Company	
	13	Life Supplemental Data due March 1		EO		3/1	NAIC	
	14	Life Supplemental Data due April 1		EO		4/1	NAIC	
	15	Life Supp Statement non-guaranteed elements – Exh 5, Int. #3		EO		3/1	Company	
	16	Life Supp Statement on par/non-par policies – Exh 5 Int. 1&2		EO		3/1	Company	
	17	Life, Health & Annuity Guaranty <u>Association Assessable Premium Exhibit, Parts 1 and 2</u> <del>Assessment Base Reconciliation Exhibit</del>		EO	xxx	4/1	NAIC	
	<del>18</del>	<del>Life, Health &amp; Annuity Guaranty Assessment Base Reconciliation Exhibit Adjustment Form</del>		<del>EO</del>	<del>xxx</del>	<del>4/1</del>	<del>NAIC</del>	
	<del>18</del> 9	Long-Term Care Experience Reporting Forms		EO	xxx	4/1	NAIC	
	<del>20</del> 19	Management Discussion & Analysis		EO		4/1	Company	
	<del>20</del> 4	Medicare Part D Coverage Supplement		EO		3/1, 5/15, 8/15, 11/15	NAIC	
	<del>21</del> 2	Medicare Supplement Insurance Experience Exhibit		EO	xxx	3/1	NAIC	
	<del>22</del> 3	Risk-Based Capital Report		EO		3/1	NAIC	
	<del>23</del> 4	Schedule SIS		N/A	N/A	3/1	NAIC	
	<del>24</del> 5	Supplemental Compensation Exhibit		N/A	N/A	3/1	NAIC	
	<del>25</del> 6	Supplemental Health Care Exhibit (Parts 1, 2 and 3)		EO		4/1	NAIC	
	<del>26</del> 7	Supplemental Health Care Exhibit's Allocation Report		EO		4/1	NAIC	
	<del>27</del> 8	Supplemental Investment Risk Interrogatories		EO		4/1	NAIC	
		<b>III. ELECTRONIC FILING REQUIREMENTS</b>						
	61	Annual Statement Electronic Filing	xxx	EO	xxx	3/1	NAIC	
	62	March .PDF Filing	xxx	EO	xxx	3/1	NAIC	
	63	Risk-Based Capital Electronic Filing	xxx	EO	N/A	3/1	NAIC	
	64	Risk-Based Capital .PDF Filing	xxx	EO	N/A	3/1	NAIC	
	65	Supplemental Electronic Filing	xxx	EO	xxx	4/1	NAIC	
	66	Supplemental .PDF Filing	xxx	EO	xxx	4/1	NAIC	
	67	Quarterly Statement Electronic Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	68	Quarterly .PDF Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	69	June .PDF Filing	xxx	EO	xxx	6/1	NAIC	
		<b>IV. AUDIT/INTERNAL CONTROL RELATED REPORTS</b>						
	81	Accountants Letter of Qualifications		EO	N/A	6/1	Company	
	82	Audited Financial Reports		EO		6/1	Company	



(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES*			(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
			Domestic		Foreign			
			State	NAIC	State			
	83	Audited Financial Reports Exemption Affidavit		N/A	N/A		Company	
	84	Communication of Internal Control Related Matters Noted in Audit		EO	N/A	8/1	Company	
	85	Independent CPA (change)		N/A	N/A		Company	
	86	Management's Report of Internal Control Over Financial Reporting		N/A	N/A	8/1	Company	
	87	Notification of Adverse Financial Condition		N/A	N/A		Company	
	88	Relief from the five-year rotation requirement for lead audit partner		EO		3/1	Company	
	89	Relief from the one-year cooling off period for independent CPA		EO		3/1	Company	
	90	Relief from the Requirements for Audit Committees		EO		3/1	Company	
	91	Request for Exemption to File Management's Report of Internal Control Over Financial Reporting		N/A	N/A		Company	
		<b>V. STATE REQUIRED FILINGS</b>						
	101	Corporate Governance Annual Disclosure***		0			Company	
	102	Filings Checklist (with Column 1 completed)		0			State	
	103	Form B-Holding Company Registration Statement		0			Company	
	104	Form F-Enterprise Risk Report ****		0			Company	
	105	ORSA *****		0			Company	
	106	Premium Tax		0			State	
	107	State Filing Fees		0			State	
	108	Signed Jurat	xxx	0			NAIC	
	109	Group Capital Calculation		0				
	110							
	111							
	112							

\*If XXX appears in this column, this state does not require this filing, if hard copy is filed with the state of domicile and if the data is filed electronically with the NAIC. If N/A appears in this column, the filing is required with the domiciliary state. EO (electronic only filing).

\*\*If Form Source is NAIC, the form should be obtained from the appropriate vendor.

\*\*\*For those states that have adopted the NAIC Corporate Governance Annual Disclosure Model Act, an annual disclosure is required of all insurers or insurance groups by June 1. The Corporate Governance Annual Disclosure is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state if filed at the insurance group level. For more information on lead states, see the following NAIC URL: [http://www.naic.org/public\\_lead\\_state\\_report.htm](http://www.naic.org/public_lead_state_report.htm).

\*\*\*\*For those states that have adopted the NAIC updated Holding Company Model Act, a Form F filing is required annually by holding company groups. Consistent with the Form B filing requirements, the Form F is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state. For more information on lead states, see the following NAIC URL: [http://www.naic.org/public\\_lead\\_state\\_report.htm](http://www.naic.org/public_lead_state_report.htm)

\*\*\*\*\*For those states that have adopted the NAIC Risk Management and Own Risk and Solvency Assessment Model Act, a summary report is required annually by insurers and insurance groups above a specified premium threshold. The ORSA Summary Report is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state if filed at the insurance group level. For more information on lead states, see the following NAIC URL: [http://www.naic.org/public\\_lead\\_state\\_report.htm](http://www.naic.org/public_lead_state_report.htm)

		<b>NOTES AND INSTRUCTIONS (A-K APPLY TO ALL FILINGS)</b>	
	A	Required Filings Contact Person:	
	B	Mailing Address:	
	C	Mailing Address for Filing Fees:	
	D	Mailing Address for Premium Tax Payments:	
	E	Delivery Instructions:	
	F	Late Filings:	
	G	Original Signatures:	
	H	Signature/Notarization/Certification:	
	I	Amended Filings:	
	J	Exceptions from normal filings:	
	K	Bar Codes (State or NAIC):	
	L	Signed Jurat:	
	M	NONE Filings:	
	N	Filings new, discontinued or modified materially since last year:	

**General Instructions  
For Companies to Use Checklist**

**Please Note:** This state's instructions for companies to file with the NAIC are included in this Checklist. The NAIC will not be sending their own checklist this year.

**Electronic Filing is intended to be filing(s) submitted to the NAIC via the NAIC Internet Filing Site which eliminates the need for a company to submit diskettes or CD-ROM to the NAIC. Companies are not required to file hard copy filings with the NAIC.**

**Column (1) Checklist**

Companies may use the checklist to submit to a state, if the state requests it. Companies should copy the checklist and place an "x" in this column when submitting information to the state.

**Column (2) Line #**

Line # refers to a standard filing number used for easy reference. This line number may change from year to year.

**Column (3) Required Filings**

Name of item or form to be filed.

The ***Annual Statement Electronic Filing*** includes the annual statement data and all supplements due March 1, per the *Annual Statement Instructions*. This includes all detail investment schedules and other supplements for which the *Annual Statement Instructions* exempt printed detail.

The ***March.PDF Filing*** is the .pdf file for annual statement data, detail for investment schedules and supplements due March 1.

The ***Risk-Based Capital Electronic Filing*** includes all risk-based capital data.

The ***Risk-Based Capital.PDF Filing*** is the .pdf file for risk-based capital data.

The ***Supplemental Electronic Filing*** includes all supplements due April 1, per the *Annual Statement Instructions*.

The ***Supplemental.PDF Filing*** is the .pdf file for all supplemental schedules and exhibits due April 1.

The ***Quarterly Electronic Filing*** includes the complete quarterly filing and the PDF files for all quarterly data.

The ***Quarterly.PDF Filing*** is the .pdf file for quarterly statement data.

The ***June.PDF Filing*** is the .pdf file for the Audited Financial Statements and Accountants Letter of Qualifications.

**Column (4) Number of Copies**

Indicates the number of copies that each foreign or domestic company is required to file for each type of form. The Blanks (EX) Task Force modified the 1999 *Annual Statement Instructions* to waive paper filings of certain NAIC supplements and certain investment schedule detail, if such investment schedule data is available to the states via the NAIC database. The checklists reflect this action taken by the Blanks (EX) Task Force. XXX appears in the "Number of Copies" "Foreign" column for the appropriate schedules and exhibits. **Some states have chosen to waive printed quarterly and annual statements from their foreign insurers and have chosen to rely upon the NAIC database for these filings. This waiver could include supplemental annual statement filings. The XXX in this column might signify that the state has waived the paper filing of the annual statement and all supplements.**

,

**Column (5) Due Date**

Indicates the date on which the company must file the form.

**Column (6) Form Source**

This column contains one of three words: “NAIC,” “State,” or “Company.” If this column contains “NAIC,” the company must obtain the forms from the appropriate vendor. If this column contains “State,” the state will provide the forms with the filing instructions (generally, on the state web site). If this column contains “Company,” the company, or its representative (e.g., its CPA firm), is expected to provide the form based upon the appropriate state instructions or the NAIC *Annual Statement Instructions*.

**Column (7) Applicable Notes**

This column contains references to the Notes to the Instructions that apply to each item listed on the checklist. The company should carefully read these notes before submitting a filing.

[https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/fall 2021/tf/app/blankswg/minutes/att two-c1 hlthcklist\\_2021\\_ filingsmade2022.docx](https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member%20meetings/fall%202021/tf/app/blankswg/minutes/att%20two-c1%20hlthcklist_2021_filingsmade2022.docx)

## LIFE, ACCIDENT AND HEALTH/FRATERNAL INSURERS

**COMPANY NAME:** \_\_\_\_\_ **NAIC Company Code:** \_\_\_\_\_

**Contact:** \_\_\_\_\_ **Telephone:** \_\_\_\_\_

**REQUIRED FILINGS IN THE STATE OF:** \_\_\_\_\_ **Filings Made During the Year 2021**

**FRATERNAL COMPANIES BEGIN FILING LIFE/FRATERNAL STATEMENT EFFECTIVE WITH FIRST QUARTER, 2019.**

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES*			(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
			Domestic State	NAIC	Foreign State			
		<b>I. NAIC FINANCIAL STATEMENTS</b>						
	1	Annual Statement (8 1/2"x14")		EO		3/1	NAIC	
	1.1	Printed Investment Schedule detail (Pages E01-E29)		EO	xxx	3/1	NAIC	
	2	Quarterly Financial Statement (8 1/2" x 14")		EO		5/15, 8/15, 11/15	NAIC	
	3	Separate Accounts Annual Statement (8 1/2"x14")		EO		3/1	NAIC	
		<b>II. NAIC SUPPLEMENTS</b>						
	11	Accident & Health Policy Experience Exhibit		EO		4/1	NAIC	
	12	Credit Insurance Experience Exhibit		EO	xxx	4/1	NAIC	
	13	Health Care Receivables Supplement		EO	xxx	3/1		
	13.1	Life, Health & Annuity Guaranty Association Assessable Premium Exhibit, Parts 1 and 2-Assessment Base Reconciliation Exhibit		EO	xxx	4/1	NAIC	
	14	Life, Health & Annuity Guaranty Assessment Base Reconciliation Exhibit Adjustment Form		EO	xxx	4/1	NAIC	
	15	Long-term Care Experience Reporting Forms		EO	xxx	4/1	NAIC	
	16	Management Discussion & Analysis		EO		4/1	Company	
	17	Medicare Supplement Insurance Experience Exhibit		EO	xxx	3/1	NAIC	
	18	Medicare Part D Coverage Supplement		EO		3/1, 5/15, 8/15, 11/15	NAIC	
	19	Risk-Based Capital Report		EO		3/1	NAIC	
	20	Schedule SIS		N/A	N/A	3/1	NAIC	
	21	Supplemental Compensation Exhibit		N/A	N/A	3/1	NAIC	
	22	Supplemental Health Care Exhibit (Parts 1, 2 and 3)		EO		4/1	NAIC	
	23	Supplemental Health Care Exhibit's Allocation Report		EO		4/1	NAIC	
	24	Supplemental Investment Risk Interrogatories		EO		4/1	NAIC	
	25	Supplemental Schedule O		EO	xxx	3/1	NAIC	
	26	Supplemental Term and Universal Life Insurance Reinsurance Exhibit		EO		4/1	NAIC	
	27	Trusted Surplus Statement		EO	xxx	3/1, 5/15, 8/15, 11/15	NAIC	
	28	Variable Annuities Supplement		EO		4/1	NAIC	
	29	VM 20 Reserves Supplement		EO		3/1	NAIC	
	30	Workers' Compensation Carve-Out Supplement		EO		3/1	NAIC	
		<b>Actuarial Related Items</b>						
	31	Actuarial Certification regarding use 2001 Preferred Class Table		EO		3/1	Company	
	32	Actuarial Certification Related Annuity Nonforfeiture Ongoing Compliance for Equity Indexed Annuities		EO		3/1	Company	
	33	Actuarial Memorandum Related to Universal Life with Secondary Guarantee Policies required by Actuarial Guideline XXXVIII 8D		N/A	xxx	4/30	Company	
	34	Actuarial Opinion		EO		3/1	Company	
	35	Actuarial Opinion on Separate Accounts Funding Guaranteed Minimum Benefit		EO		3/1	Company	
	36	Actuarial Opinion on Synthetic Guaranteed Investment Contracts		EO		3/1	Company	
	37	Actuarial Opinion on X-Factors		EO		3/1	Company	
	38	Actuarial Opinion required by Modified Guaranteed Annuity Model Regulation		EO		3/1	Company	
	39	Request for Life PBR Exemption (formerly Companywide Exemption)		E/O		Commissioner 7/1 NAIC 8/15	Company	
	40	Executive Summary of the PBR Actuarial Report		N/A		4/1	Company	
	41	Life Summary of the PBR Actuarial Report		N/A		4/1	Company	

Attachment Two-C  
Accounting Practices and Procedures (E) Task Force  
12/11/21

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES*			(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
			Domestic		Foreign			
			State	NAIC	State			
	42	Variable Annuities Summary of the PBR Actuarial Report		N/A		4/1	Company	
	43	PBR Actuarial Report (provide upon request)		N/A			Company	
	44	RAAIS required by <i>Valuation Manual</i>		N/A	xxx	4/1	Company	
	45	Reasonableness & Consistency of Assumptions Certification required by Actuarial Guideline XXXV		EO	xxx	3/1,5/15, 8/15, 11/15	Company	
	46	Reasonableness of Assumptions Certification required by Actuarial Guideline XXXV		EO	xxx	3/1,5/15, 8/15, 11/15	Company	
	47	Reasonableness & Consistency of Assumptions Certification required by Actuarial Guideline XXXVI (Updated Average Market Value)		EO	xxx	3/1,5/15, 8/15, 11/15	Company	
	48	Reasonableness & Consistency of Assumptions Certification required by Actuarial Guideline XXXVI (Updated Market Value)		EO	xxx	3/1,5/15, 8/15, 11/15	Company	
	49	Reasonableness of Assumptions Certification for Implied Guaranteed Rate Method required by Actuarial Guideline XXXVI		EO	xxx	3/1,5/15, 8/15, 11/15	Company	
	50	RBC Certification required under C-3 Phase I		EO		3/1	Company	
	51	RBC Certification required under C-3 Phase II		EO		3/1	Company	
	52	Statement on non-guaranteed elements - Exhibit 5 Int. #3		EO		3/1	Company	
	53	Statement on par/non-par policies – Exhibit 5 Int. 1&2		EO		3/1	Company	
		<b>III. ELECTRONIC FILING REQUIREMENTS</b>						
	61	Annual Statement Electronic Filing	xxx	EO	xxx	3/1	NAIC	
	62	March .PDF Filing	xxx	EO	xxx	3/1	NAIC	
	63	Risk-Based Capital Electronic Filing	xxx	EO	N/A	3/1	NAIC	
	64	Risk-Based Capital .PDF Filing	xxx	EO	N/A	3/1	NAIC	
	65	Separate Accounts Electronic Filing	xxx	EO	xxx	3/1	NAIC	
	66	Separate Accounts .PDF Filing	xxx	EO	xxx	3/1	NAIC	
	67	Supplemental Electronic Filing	xxx	EO	xxx	4/1	NAIC	
	68	Supplemental .PDF Filing	xxx	EO	xxx	4/1	NAIC	
	69	Quarterly Statement Electronic Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	70	Quarterly .PDF Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	71	June .PDF Filing	xxx	EO	xxx	6/1	NAIC	
		<b>IV. AUDIT/INTERNAL CONTROL RELATED REPORTS</b>						
	81	Accountants Letter of Qualifications		EO	N/A	6/1	Company	
	82	Audited Financial Reports		EO		6/1	Company	
	83	Audited Financial Reports Exemption Affidavit		N/A	N/A		Company	
	84	Communication of Internal Control Related Matters Noted in Audit		EO	N/A	8/1	Company	
	85	Independent CPA (change)		N/A	N/A		Company	
	86	Management's Report of Internal Control Over Financial Reporting		N/A	N/A	8/1	Company	
	87	Notification of Adverse Financial Condition		N/A	N/A		Company	
	88	Relief from the five-year rotation requirement for lead audit partner		EO		3/1	Company	
	89	Relief from the one-year cooling off period for independent CPA		EO		3/1	Company	
	90	Relief from the Requirements for Audit Committees		EO		3/1	Company	
	91	Request for Exemption to File Management's Report of Internal Control Over Financial Reporting		N/A	N/A		Company	
		<b>V. STATE REQUIRED FILINGS</b>						
	101	Corporate Governance Annual Disclosure***		0			Company	
	102	Filings Checklist (with Column 1 completed)		0			State	
	103	Form B-Holding Company Registration Statement		0			Company	
	104	Form F-Enterprise Risk Report ****		0			Company	
	105	ORSA*****		0			Company	
	106	Premium Tax		0			State	
	107	State Filing Fees		0			State	
	108	Signed Jurat	xxx	0			NAIC	

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES*			(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
			Domestic		Foreign			
			State	NAIC	State			
	109	Group Capital Calculation		0				
	110							
	111							
	112							
	113							

\*If XXX appears in this column, this state does not require this filing, if hard copy is filed with the state of domicile and if the data is filed electronically with the NAIC. If N/A appears in this column, the filing is required with the domiciliary state. EO (electronic only filing).

\*\*If Form Source is NAIC, the form should be obtained from the appropriate vendor.

\*\*\*For those states that have adopted the NAIC Corporate Governance Annual Disclosure Model Act, an annual disclosure is required of all insurers or insurance groups by June 1. The Corporate Governance Annual Disclosure is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state if filed at the insurance group level. For more information on lead states, see the following NAIC URL: [http://www.naic.org/public\\_lead\\_state\\_report.htm](http://www.naic.org/public_lead_state_report.htm).

\*\*\*\*For those states that have adopted the NAIC updated Holding Company Model Act, a Form F filing is required annually by holding company groups. Consistent with the Form B filing requirements, the Form F is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state. For more information on lead states, see the following NAIC URL: [http://www.naic.org/public\\_lead\\_state\\_report.htm](http://www.naic.org/public_lead_state_report.htm)

\*\*\*\*\*For those states that have adopted the NAIC Risk Management and Own Risk and Solvency Assessment Model Act, a summary report is required annually by insurers and insurance groups above a specified premium threshold. The ORSA Summary Report is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state if filed at the insurance group level. For more information on lead states, see the following NAIC URL: [http://www.naic.org/public\\_lead\\_state\\_report.htm](http://www.naic.org/public_lead_state_report.htm)

		<b>NOTES AND INSTRUCTIONS (A-K APPLY TO ALL FILINGS)</b>	
	A	Required Filings Contact Person:	
	B	Mailing Address:	
	C	Mailing Address for Filing Fees:	
	D	Mailing Address for Premium Tax Payments:	
	E	Delivery Instructions:	
	F	Late Filings:	
	G	Original Signatures:	
	H	Signature/Notarization/Certification:	
	I	Amended Filings:	
	J	Exceptions from normal filings:	
	K	Bar Codes (State or NAIC):	
	L	Signed Jurat:	
	M	NONE Filings:	
	N	Filings new, discontinued or modified materially since last year:	



**General Instructions  
For Companies to Use Checklist**

**Please Note:** This state's instructions for companies to file with the NAIC are included in this Checklist. The NAIC will not be sending their own checklist this year.

**Electronic filing is intended to be filing(s) submitted to the NAIC via the NAIC Internet Filing Site which eliminates the need for a company to submit diskettes or CD-ROM to the NAIC. Companies are not required to file hard copy filings with the NAIC.**

**Column (1) Checklist**

Companies may use the checklist to submit to a state, if the state requests it. Companies should copy the checklist and place an "x" in this column when submitting information to the state.

**Column (2) Line #**

Line # refers to a standard filing number used for easy reference. This line number may change from year to year.

**Column (3) Required Filings**

Name of item or form to be filed.

The ***Annual Statement Electronic Filing*** includes the annual statement data and all supplements due March 1, per the *Annual Statement Instructions*. This includes all detail investment schedules and other supplements for which the *Annual Statement Instructions* exempt printed detail.

The ***March.PDF Filing*** is the .pdf file for annual statement data, detail for investment schedules and supplements due March 1.

The ***Risk-Based Capital Electronic Filing*** includes all risk-based capital data.

The ***Risk-Based Capital.PDF Filing*** is the .pdf file for risk-based capital data.

The ***Separate Accounts Electronic Filing*** includes the separate accounts annual statement and investment schedule detail.

The ***Separate Accounts.PDF Filing*** is the .pdf file for the separate accounts annual statement and all investment schedule detail.

The ***Supplemental Electronic Filing*** includes all supplements due April 1, per the *Annual Statement Instructions*.

The ***Supplement.PDF Filing*** is the .pdf file for all supplemental schedules and exhibits due April 1.

The ***Quarterly Electronic Filing*** includes the quarterly statement data.

The ***Quarterly.PDF Filing*** is the .pdf for quarterly statement data.

The ***June.PDF Filing*** is the .pdf file for the Audited Financial Statements and Accountants Letter of Qualifications.

**Column (4) Number of Copies**

Indicates the number of copies that each foreign or domestic company is required to file for each type of form. The Blanks (EX) Task Force modified the 1999 *Annual Statement Instructions* to waive paper filings of certain NAIC supplements and certain investment schedule detail, if such investment schedule data is available to the states via the NAIC database. The checklists reflect this action taken by the Blanks (EX) Task Force. XXX appears in the "Number of Copies" "Foreign" column for the appropriate schedules and exhibits. **Some states have chosen to waive printed quarterly and annual statements from their foreign insurers and to rely upon the NAIC database for these filings. This waiver could include supplemental annual statement filings. The XXX in this column might signify that the state has waived the paper filing of the annual statement and all supplements.**

**Column (5) Due Date**

Indicates the date on which the company must file the form.

**Column (6) Form Source**

This column contains one of three words: “NAIC,” “State,” or “Company.” If this column contains “NAIC,” the company must obtain the forms from the appropriate vendor. If this column contains “State,” the state will provide the forms with the filing instructions. If this column contains “Company,” the company, or its representative (e.g., its CPA firm), is expected to provide the form based upon the appropriate state instructions or the NAIC *Annual Statement Instructions*.

**Column (7) Applicable Notes**

This column contains references to the Notes to the Instructions that apply to each item listed on the checklist. The company should carefully read these notes before submitting a filing.

[https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/fall 2021/tf/app/blankswg/minutes/att two-c3 lifecklist\\_2021\\_filingsmade2022.docx](https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member%20meetings/fall%202021/tf/app/blanks%20wg/minutes/att%20two-c3%20life%20checklist_2021_filingsmade2022.docx)

## PROPERTY & CASUALTY INSURERS

COMPANY NAME: \_\_\_\_\_ NAIC Company Code: \_\_\_\_\_

Contact: \_\_\_\_\_ Telephone: \_\_\_\_\_

REQUIRED FILINGS IN THE STATE OF: \_\_\_\_\_ Filings Made During the Year 2022<sup>1</sup>

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES*			(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
			Domestic		Foreign			
			State	NAIC	State			
		<b>I. NAIC FINANCIAL STATEMENTS</b>						
	1	Annual Statement (8 ½" x 14")		EO		3/1	NAIC	
	1.1	Printed Investment Schedule detail (Pages E01-E29)		EO	xxx	3/1	NAIC	
	2	Quarterly Financial Statement (8 ½" x 14")		EO		5/15, 8/15, 11/15	NAIC	
	3	Protected Cell Annual Statement		0	xxx	3/1	NAIC	
	4	Combined Annual Statement (8 ½" x 14")		EO		5/1	NAIC	
		<b>II. NAIC SUPPLEMENTS</b>						
	11	Accident & Health Policy Experience Exhibit		EO		4/1	NAIC	
	12	Actuarial Opinion		EO		3/1	Company	
	13	Actuarial Opinion Summary		N/A		3/15	Company	
	14	Bail Bond Supplement		EO		3/1	NAIC	
	15	Combined Insurance Expense Exhibit		EO		5/1	NAIC	
	16	Credit Insurance Experience Exhibit		EO	xxx	4/1	NAIC	
	17	Cybersecurity and Identity Theft Insurance Coverage Supplement		EO		4/1	NAIC	
	18	Director and Officer Insurance Coverage Supplement		EO		3/1, 5/15, 8/15, 11/15	NAIC	
	19	Financial Guaranty Insurance Exhibit		EO		3/1	NAIC	
	20	Insurance Expense Exhibit		EO	xxx	4/1	NAIC	
	21	Life, Health & Annuity Guaranty <u>Association Assessablement Base Reconciliation Premium Exhibit, Parts 1 and 2</u>		EO	xxx	4/1	NAIC	
	<del>22</del>	<del>Life, Health &amp; Annuity Guaranty Assessment Base Reconciliation Exhibit Adjustment Form</del>		<del>EO</del>	<del>xxx</del>	<del>4/1</del>	<del>NAIC</del>	
	<del>22</del>	Long-Term Care Experience Reporting Forms		EO	xxx	4/1	NAIC	
	<del>23</del>	Management Discussion & Analysis		EO		4/1	Company	
	<del>24</del>	Medicare Part D Coverage Supplement		EO		3/1, 5/15, 8/15, 11/15	NAIC	
	<del>25</del>	Medicare Supplement Insurance Experience Exhibit		EO	xxx	3/1	NAIC	
	26	<u>Mortgage Guaranty Insurance Exhibit</u>		EO	xxx	4/1	NAIC	
	27	Premiums Attributed to Protected Cells Exhibit		EO		3/1	NAIC	
	28	Private Flood Insurance Supplement		EO		4/1	NAIC	
	29	Reinsurance Attestation Supplement		EO	xxx	3/1	Company	
	30	Exceptions to Reinsurance Attestation Supplement		N/A	xxx	3/1	Company	
	31	Reinsurance Summary Supplemental		EO	xxx	3/1	NAIC	
	32	Risk-Based Capital Report		EO		3/1	NAIC	
	33	Schedule SIS		N/A	N/A	3/1	NAIC	
	34	Supplement A to Schedule T		EO		3/1, 5/15, 8/15, 11/15	NAIC	
	35	Supplemental Compensation Exhibit		N/A	N/A	3/1	NAIC	
	36	Supplemental Health Care Exhibit (Parts 1, 2 and 3)		EO		4/1	NAIC	
	37	Supplemental Health Care Exhibit's Allocation Report Supplement		EO		4/1	NAIC	
	38	Supplemental Investment Risk Interrogatories		EO		4/1	NAIC	
	39	Supplemental Schedule for Reinsurance Counterparty Reporting Exception – Asbestos and Pollution Contracts		EO		3/1	NAIC	
	40	Trusted Surplus Statement		EO	xxx	3/1, 5/15, 8/15, 11/15	NAIC	

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES*			(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
			Domestic		Foreign			
			State	NAIC	State			
		<b>III. ELECTRONIC FILING REQUIREMENTS</b>						
	61	Annual Statement Electronic Filing	xxx	EO	xxx	3/1	NAIC	
	62	March .PDF Filing	xxx	EO	xxx	3/1	NAIC	
	63	Risk-Based Capital Electronic Filing	xxx	EO	N/A	3/1	NAIC	
	64	Risk-Based Capital .PDF Filing	xxx	EO	N/A	3/1	NAIC	
	65	Combined Annual Statement Electronic Filing	xxx	EO	xxx	5/1	NAIC	
	66	Combined Annual Statement .PDF Filing	xxx	EO	xxx	5/1	NAIC	
	67	Supplemental Electronic Filing	xxx	EO	xxx	4/1	NAIC	
	68	Supplemental .PDF Filing	xxx	EO	xxx	4/1	NAIC	
	69	Quarterly Statement Electronic Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	70	Quarterly .PDF Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	71	June .PDF Filing	xxx	EO	xxx	6/1	NAIC	
		<b>IV. AUDIT/INTERNAL CONTROL RELATED REPORTS</b>						
	81	Accountants Letter of Qualifications		EO	N/A	6/1	Company	
	82	Audited Financial Reports		EO		6/1	Company	
	83	Audited Financial Reports Exemption Affidavit		N/A	N/A		Company	
	84	Communication of Internal Control Related Matters Noted in Audit		EO	N/A	8/1	Company	
	85	Independent CPA (change)		N/A	N/A		Company	
	86	Management's Report of Internal Control Over Financial Reporting		N/A	N/A	8/1	Company	
	87	Notification of Adverse Financial Condition		N/A	N/A		Company	
	88	Relief from the five-year rotation requirement for lead audit partner		EO		3/1	Company	
	89	Relief from the one-year cooling off period for independent CPA		EO		3/1	Company	
	90	Relief from the Requirements for Audit Committees		EO		3/1	Company	
	91	Request to File Consolidated Audited Annual Statements		N/A	N/A		Company	
	92	Request for Exemption to File Management's Report of Internal Control Over Financial Reporting		N/A	N/A		Company	
		<b>V. STATE REQUIRED FILINGS***</b>						
	101	Corporate Governance Annual Disclosure***		0			Company	
	102	Filings Checklist (with Column 1 completed)		0			State	
	103	Form B-Holding Company Registration Statement		0			Company	
	104	Form F-Enterprise Risk Report ****		0			Company	
	105	ORSA *****		0			Company	
	106	Premium Tax		0			State	
	107	State Filing Fees		0			State	
	108	Signed Jurat	xxx	0			NAIC	
	109	<u>Group Capital Calculation</u>		0				
	110							
	111							

\*If XXX appears in this column, this state does not require this filing, if hard copy is filed with the state of domicile and if the data is filed electronically with the NAIC. If N/A appears in this column, the filing is required with the domiciliary state. EO (electronic only filing).

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		<b>NOTES AND INSTRUCTIONS (A-K APPLY TO ALL FILINGS)</b>	
	A	Required Filings Contact Person:	
	B	Mailing Address:	
	C	Mailing Address for Filing Fees:	
	D	Mailing Address for Premium Tax Payments:	
	E	Delivery Instructions:	
	F	Late Filings:	
	G	Original Signatures:	
	H	Signature/Notarization/Certification:	
	I	Amended Filings:	
	J	Exceptions from normal filings:	
	K	Bar Codes (State or NAIC):	
	L	Signed Jurat:	
	M	NONE Filings:	
	N	Filings new, discontinued or modified materially since last year:	

**General Instructions  
For Companies to Use Checklist**

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**Column (2) Line #**

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The ***March .PDF Filing*** is the .pdf file for annual statement data, detail for investment schedules and supplements due March 1.

The ***Risk-Based Capital Electronic Filing*** includes all risk-based capital data.

The ***Risk-Based Capital.PDF Filing*** is the .pdf file for risk-based capital data.

The ***Supplemental Electronic Filing*** includes all supplements due April 1, per the *Annual Statement Instructions*.

The ***Supplemental.PDF Filing*** is the .pdf file for all supplemental schedules and exhibits due April 1.

The ***Quarterly Statement Electronic Filing*** includes the complete quarterly statement data.

The ***Quarterly Statement.PDF Filing*** is the .pdf file for quarterly statement data.

The ***Combined Annual Statement Electronic Filing*** includes the required pages of the combined annual statement and the combined Insurance Expense Exhibit.

The ***Combined Annual Statement.PDF Filing*** is the .pdf file for the Combined annual statement data and the combined Insurance Expense Exhibit.

The ***June .PDF Filing*** is the .pdf file for the Audited Financial Statements and Accountants Letter of Qualifications.

**Column (4) Number of Copies**

Indicates the number of copies that each foreign or domestic company is required to file for each type of form. The Blanks (EX) Task Force modified the 1999 *Annual Statement Instructions* to waive paper filings of certain NAIC supplements and certain investment schedule detail if such investment schedule data is available to the states via the NAIC database. The checklists reflect this action taken by the Blanks (EX) Task Force. XXX appears in the "Number of Copies" "Foreign" column for the appropriate schedules and exhibits. **Some states have chosen to waive printed quarterly and annual statements from their foreign insurers and to rely upon the NAIC database for these filings. This waiver could include**

**supplemental annual statement filings. The XXX in this column might signify that the state has waived the paper filing of the annual statement and all supplements.**

**Column (5) Due Date**

Indicates the date on which the company must file the form.

**Column (6) Form Source**

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[https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/fall 2021/tf/app/blankswg/minutes/att two-c4 propcklist\\_2021\\_filingsmade2022.docx](https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member%20meetings/fall%202021/tf/app/blanksWG/minutes/att%20two-c4%20propcklist_2021_filingsmade2022.docx)



### TITLE COMPANIES

**COMPANY NAME:** \_\_\_\_\_ **NAIC Company Code:** \_\_\_\_\_

**Contact:** \_\_\_\_\_ **Telephone:** \_\_\_\_\_

**REQUIRED FILINGS IN THE STATE OF:** \_\_\_\_\_ **Filings Made During the Year 2022**<sup>1</sup>

(1) Checklist	(2) Line #	(3) REQUIRED FILING FOR THE ABOVE STATE	(4) NUMBER OF COPIES*			(5) DUE DATE	(6) FORM SOURCE*	(7) APPLICABLE NOTES
			Domestic		Foreign			
			State	NAIC				
		<b>I. NAIC FINANCIAL STATEMENTS</b>						
	1	Annual Statement (8 ½" x 14")		EO		3/1	NAIC	
	1.1	Printed Investment Schedule detail (Pages E01-E29)		EO	xxx	3/1	NAIC	
	2	Quarterly Financial Statement (8 ½" x 14")		EO		5/15, 8/15, 11/15	NAIC	
		<b>II. NAIC SUPPLEMENTS</b>						
	11	Actuarial Opinion		EO		3/1	Company	
	12	Investment Risk Interrogatories		EO		4/1	NAIC	
	13	Management Discussion & Analysis		EO		4/1	Company	
	14	Schedule SIS		N/A	N/A	3/1	NAIC	
	15	Supplemental Compensation Exhibit		N/A	N/A	3/1	NAIC	
	16	Supplemental Schedule of Business Written By Agency		N/A		4/1	NAIC	
		<b>III. ELECTRONIC FILING REQUIREMENTS</b>						
	61	Annual Statement Electronic Filing	xxx	EO	xxx	3/1	NAIC	
	62	March .PDF Filing	xxx	EO	xxx	3/1	NAIC	
	63	Supplemental Electronic Filing	xxx	EO	xxx	4/1	NAIC	
	64	Supplemental .PDF Filing	xxx	EO	xxx	4/1	NAIC	
	65	Quarterly Statement Electronic Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	66	Quarterly .PDF Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	67	June .PDF Filing	xxx	EO	xxx	6/1	NAIC	
		<b>IV. AUDIT/INTERNAL CONTROL RELATED REPORTS</b>						
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	87	Notification of Adverse Financial Condition		N/A	N/A		Company	
	88	Request for Exemption to File		N/A	N/A		Company	
	89	Relief from the five-year rotation requirement for lead audit partner		EO		3/1	Company	
	90	Relief from the one-year cooling off period for independent CPA		EO		3/1	Company	
	91	Relief from the Requirements for Audit Committees		EO		3/1	Company	
		<b>V. STATE REQUIRED FILINGS***</b>						
	101	Corporate Governance Annual Disclosure***		0			Company	
	102	Filings Checklist (with Column 1 completed)		0			State	
	103	Form B-Holding Company Registration Statement		0			Company	
	104	Form F-Enterprise Risk Report ***		0			Company	
	105	ORSA ****		0			Company	

(1) Checklist	(2) Line #	(3) REQUIRED FILING FOR THE ABOVE STATE	(4) NUMBER OF COPIES*			(5) DUE DATE	(6) FORM SOURCE*	(7) APPLICABLE NOTES
			Domestic		Foreign			
			State	NAIC	State			
	106	State Filing Fees		0			State	
	107	Signed Jurat	xxx	0			NAIC	
	108	Group Capital Calculation		0				
	109							

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	H	Signature/Notarization/Certification:	
	I	Amended Filings:	
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The ***June.PDF Filing*** is the .pdf file for the Audited Financial Statements and Accountants Letter of Qualifications.

**Column (4) Number of Copies**

Indicates the number of copies that each foreign or domestic company is required to file for each type of form. The Blanks (EX) Task Force modified the 1999 *Annual Statement Instructions* to waive paper filings of certain NAIC supplements and certain investment schedule detail, if such investment schedule data is available to the states via the NAIC database. The checklists reflect this action taken by the Blanks (EX) Task Force. XXX appears in the "Number of Copies" "Foreign" column for the appropriate schedules and exhibits. **Some states have chosen to waive printed quarterly and annual statements from their foreign insurers and to rely upon the NAIC database for these filings. This waiver could include supplemental annual statement filings. The XXX in this column might signify that the state has waived the paper filing of the annual statement and all supplements.**

**Column (5) Due Date**

Indicates the date on which the company must file the form.

**Column (6) Form Source**

This column contains one of three words: “NAIC,” “State,” or “Company.” If this column contains “NAIC,” the company must obtain the forms from the appropriate vendor. If this column contains “State,” the state will provide the forms with the filing instructions (generally, on its web site). If this column contains “Company,” the company, or its representative (e.g., its CPA firm), is expected to provide the form based upon the appropriate state instructions or the NAIC *Annual Statement Instructions*.

**Column (7) Applicable Notes**

This column contains references to the Notes to the Instructions that apply to each item listed on the checklist. The company should carefully read these notes before submitting a filing.

[https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/fall 2021/tf/app/blankswg/minutes/att two-c5 titlecklist\\_2021\\_filingsmade2022.docx](https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member%20meetings/fall%202021/tf/app/blankswg/minutes/att%20two-c5%20titlecklist_2021_filingsmade2022.docx)