2020 Spring National Meeting
Conference Call

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE
Wednesday, April 1, 2020
9:00 – 10:00 a.m. Eastern / 10:00 – 11:00 a.m. Central
Diamond Pass Call – http://dpregister.com/10140346

ROLL CALL

Kent Sullivan, Chair – Texas
Trinidad Navarro, Vice Chair – Delaware
Jim L. Ridling – Alabama
Lori K. Wing-Heier – Alaska
Elizabeth Perri – American Samoa
Allen W. Kerr – Arkansas
Ricardo Lara – California
Andrew N. Mais – Connecticut
Karima M. Woods – District of Columbia
David Almair – Florida
Dafne M. Shimizu – Guam
Dean L. Cameron – Idaho
Stephen W. Robertson – Indiana
Doug Ommen – Iowa
Vicki Schmidt – Kansas
Sharon P. Clark – Kentucky
James J. Donelon – Louisiana
Eric A. Cioppa – Maine
Gary Anderson – Massachusetts
Anita G. Fox – Michigan
Steve Kelley – Minnesota
Chlora Lindley-Myers – Missouri
Bruce R. Rang – Nebraska
Chris Nicolopoulos – New Hampshire
Marlene Caride – New Jersey
Russell Toal – New Mexico
Linda A. Lasewell – New York
Mike Causey – North Carolina
Jon Godfread – North Dakota
Jillian Froment – Ohio
Glen Mulready – Oklahoma
Jessica K. Altman – Pennsylvania
Elizabeth Kelleher Dwyer – Rhode Island
Larry D. Deiter – South Dakota
Hodgen Mainda – Tennessee
Todd E. Kiser – Utah
Michael S. Pieciak – Vermont
Scott A. White – Virginia
Mike Kreidler – Washington
James A. Dodrill – West Virginia
Mark Afable – Wisconsin
Jeff Rude – Wyoming

NAIC Support Staff: Robin Marcotte

AGENDA

1. Consider Adoption of its 2019 Fall National Meeting Minutes—Jamie Walker (TX) Attachment One

2. Consider Adoption of its Working Group Reports—Jamie Walker (TX)
   b. Blanks (E) Working Group—Jake Garn (UT) Attachment Three

3. Discuss Any Other Matters Brought Before the Task Force—Jamie Walker (TX)

4. Adjournment
The Accounting Practices and Procedures (E) Task Force met in Austin, TX, Dec. 8, 2019. The following Task Force members participated: Kent Sullivan, Chair, represented by Jamie Walker (TX); Jeff Rude, Vice Chair, represented by Linda Johnson (WY); Lori K. Wing-Heier represented by David Phifer (AK); Jim L. Ridling represented by Sheila Travis (AL); Allen W. Kerr represented by Mel Anderson (AR); Andrew N. Mais represented by William Arfanis and Kathy Belfi (CT); Stephen C. Taylor represented by N. Kevin Brown (DC); Trinidad Navarro represented by Ryllynn Brown (DE); David Altmaier represented by Virginia Christy (FL); Dafne M. Shimizu represented by Alice Sebastian-Cruz (GU); Colin M. Hayashida represented by Andrew Kurata (HI); Doug Ommen represented by Carrie Mears (IA); Dean L. Cameron represented by Nathan Faragher (ID); Stephen W. Robertson represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Nancy G. Atkins represented by Sandy Batts (KY); James J. Donelon represented by Stewart Guerin (LA); Gary Anderson represented by James A. McCarthy (MA); Eric A. Cioppa represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver (MI); Steve Kelley represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented David Browning (MS); Mike Causey represented by Jackie Obusek (NC); Jon Godfrey represented by Matt Fischer (ND); Bruce R. Ramge represented by Justin Schrader and Lindsay Crawford (NE); Marlene Caride represented by Diana Sherman (NJ); John G. Franchini represented by Leah Gecker (NM); Jillian Froment represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Jessica Altman represented by Kimberly Rankin (PA); Elizabeth Kelleher-Dwyer represented by Jack Broccoli (RI); Larry Deiter represented by Johanna Nickelson (SD); Hodgen Mainda represented by Trey Hancock (TN); Todd E. Kiser represented by Jake Garn (UT); Scott A. White represented by Doug Stolte and Dave Smith (VA); Michael S. Picciak represented by Karen Ducharme (VT); Mike Kreidler represented by Patrick McNaughton (WA); Mark Afable represented by Amy Malm (WI); and James A. Dodrill represented by Justin Parr (WV).

1. **Adopted its Minutes**

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

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


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

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

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

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

c. Revisions clarify the recognition and measurement guidance for derivatives that do not qualify as hedging, income generation or replication transactions.
d. Revisions clarify that nonadmittance is required when there is an unalleviated substantial doubt about an SCA’s ability to continue as a going concern identified in any part of the audit report, accompanying financial statements or notes to the financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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


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

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

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

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

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

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

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

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

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

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

n. Revisions incorporate disclosure updates for reinsurers from reciprocal jurisdictions.

o. Comments are requested on the preferred approaches for reporting retroactive contracts that meet the exception for prospective accounting and the disadvantages to approaches being used. Industry and state insurance regulator volunteers are requested to assist with developing this guidance. The Working Group directed notification to the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group will be notified of the exposure.

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

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

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

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


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

w. Exposed the following editorial revisions to statutory accounting:

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

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

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

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

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

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


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

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

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

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


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

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

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

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

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


c. Exposed its revised procedures.

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

e. Adopted the editorial listing.

f. Approved the State Filing Checklist templates.

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

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

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.
Attachment Two
(Pending)

Report of the
Statutory Accounting Principles (E)
Working Group
Attachment Three
(Pending)

Report of the
Blanks (E) Working Group